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February 26, 2007 • Issue 07:02:02

Shrinking margins, rising costs: ISOs speak out

ISOs agree: Margins are decreasing, while the cost of boarding new merchants is on the rise. These trends, left unchecked, appear to be on a collision course. As a result, many ISOs are limiting their expenses and scrutinizing merchant operations to ensure that the light at the end of the tunnel is not an oncoming train.

According to Sam Caine, President of Card Payment Services Inc., average account acquisition costs have increased steadily over the past few years. And the culprits are higher marketing and HR costs, untenable pricing structures and longer sales cycles.

"For us the average break-even point is about six to eight months of processing, based upon our fully loaded acquisition cost," he said. "But the biggest challenges come from the revenue side, not necessarily the costs side of the equation.

"Margins are being compressed by the illusion created by loss-leader type pricing structures and more and more reps offering rates slightly above costs."

Caine said this pricing is not sustainable for those planning to provide the requisite merchant services. "So indirectly, keeping the back-end servicing costs down is a significant issue if we want to compete with the perceptions created by low-ball rates," he added.

Additionally, he said, "If it takes 20% more time to close the average sale than it did five years ago – and I believe it does – the average rep will be able to handle only 80% of the prospects they were able to handle [before]. Therefore a rep closes less business, which increases the acquisition costs associated with HR."

Acquisition costs ballooning

Jared Isaacman, Chief Executive Officer of United Bank Card Inc., agreed the cost of acquiring merchants has gone up considerably in the last few years.

"In the past, the only real hard [merchant boarding] expenses a super ISO or processor had to absorb were operational- and marketing-related," he said. "Our costs were typically covered on the equipment, shipping and other hard costs like PIN-pad encryptions.



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Notable Quote

"An ISO's Web site should not contain [merchant] pricing, contact forms or online applications. These are potentially injurious to an MLS's ability to make a living."

See story on page 74



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The magic number

Can you please give me your best guess on the following:

- 1) How many ISOs are in the U.S.?
- 2) How many merchant level salespeople are in the U.S.?

Thanks,
Ross Federgreen

Ross, I would love to help you, but The Green Sheet does not track that information. It would be too difficult. The ISO market is hard to size. Companies are buying and selling not only their portfolios but also other companies. Some ISOs are registered. Most are not. Then there are so-called strategic alliances, sub ISOs, 1099 agents and so on.

I don't even feel comfortable taking a guess. But if someone else you know does, I would be curious to know his or her estimates.

Editor

Kudos to Michael Nardy, Street SmartsSM author

Mike,

Thanks! Your articles in *The Green Sheet* are the most honest and useful I've ever seen in that publication.

Steven Pavent

Press releases ... free or not?

Is there a charge involved with sending you a press release?

Rachel Barton
RentPayment

Rachel,
Some things in life really are free. We welcome all press releases related to the payments industry, and we will post them in our News From the Wire section on GS Online.

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YOUR NEWS IN A HURRY

Short on time? This section of *The Green Sheet* provides a quick summary of nearly all the articles in this issue to help keep you up to date on the latest news and hot topics in the payments industry.

Cover Story

Shrinking margins, rising costs: ISOs speak out

ISOs agree: Margins are decreasing, while the cost of boarding new merchants is on the rise. These trends, left unchecked, appear to be on a collision course. As a result, many ISOs are limiting their expenses and scrutinizing merchant operations to ensure the light at the end of the tunnel is not an oncoming train.

Page 1

View

Even newbies should outsource

A DIY mentality is fine for weekend handy-men. But there are compelling reasons to outsource tasks outside your core competence to a knowledgeable entity that can deliver economies of scale. There's much to be gained by maximizing your strengths and finding partners to supplement your weak areas.

Page 32

Industry Leader

The accidental advocate

In 2004, one of Steven Peisner's merchants was suffering excessive amounts of fraud and chargebacks. So Peisner created his own method for reducing the merchant's fraud. It was intended for that client only, but it worked so well, he tested it on other businesses. Time and again, it worked.

Page 36

Feature

Lawsuit challenges interchange practices

From ATMmarketplace.com. The subject of ATM interchange fees is touchy. Making times especially difficult are the lingering impacts of Visa U.S.A.'s move to tiered interchange fees in October 2005, and a California class action lawsuit plodding through the courts since 2004.

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Feature

In Memoriam: John Marshall, 'a friend to all'

The payments industry mourns the death of John Marshall, a leader and friend.

Page 52

View

NEAA meeting spotlights payments in transition

The payments space is in transition. But passages don't have to be hardships. Indeed, opportunities aplenty remain to grow payment businesses – from deals made by the feet on the street to new initiatives at the brand level, and points along that continuum.

Page 28

News

Proposals from Washington looming

Legislative changes afoot pose challenges to both merchants and their acquiring banks. Two issues cast ominous shadows over the industry: The prospect of reporting merchants' gross bankcard sales, and data security bills promising to hold merchants accountable for disclosing data breaches.

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News

**The mobile card:
Mixing money with talk**

As payment devices, mobile phones have it all over bankcards: Whereas a card is merely a receptacle for the consumer's data, a phone can initiate a payment. But turning a phone into a payment device poses big hurdles. Bankcards come already loaded with consumers' account data. This won't be the case with handsets.

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Education

Petro prospecting

The petroleum market is heating up. And if you're an MLS breaking into this sphere, you're on the way to adding big bucks to your residual stream.

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Education

**StreetSmartsSM:
Direct sales:
The pros and cons**

What if the super ISOs and processors were no longer looking for ISOs and MLSs to partner with? What if all the mainstream ISO programs were gone? It could happen; it's already taking place.

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Education

And when I'm gone ...

Have you considered what will happen should you die or become incapacitated? Who will inherit your business? Who will mind the store? Very few ISO or agent agreements provide for this contingency. Estate planning may not be your cup of tea. But you should do it, eventually.

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Education

Elementary EBT

Both the grocery and professional-office vertical markets wrangle with electronic benefits transfer (EBT). If you become familiar with basic EBT concepts, you will more easily gain the confidence of decision makers in both of these arenas.

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Education

Call center cornucopia

Maybe you respond to a wealth of leads from your Web site, mass campaign mailings or lead generation tools. Or, maybe your customers have increasing support needs. A call center may be perfect for your business.

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Education

Word of mouth mojo

During the course of your business day, you will have many chances to deliver value and stimulate referrals. The key is to recognize and then capitalize on those opportunities.

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Inspiration

Becoming the brand of choice

Can you create brand loyalty within your merchant base? Can doing business with you become so desirable that using another agent or ISO never occurs to your customers, regardless of price or market conditions? Sure – if you find ways to stand out from the crowd.

Page 109

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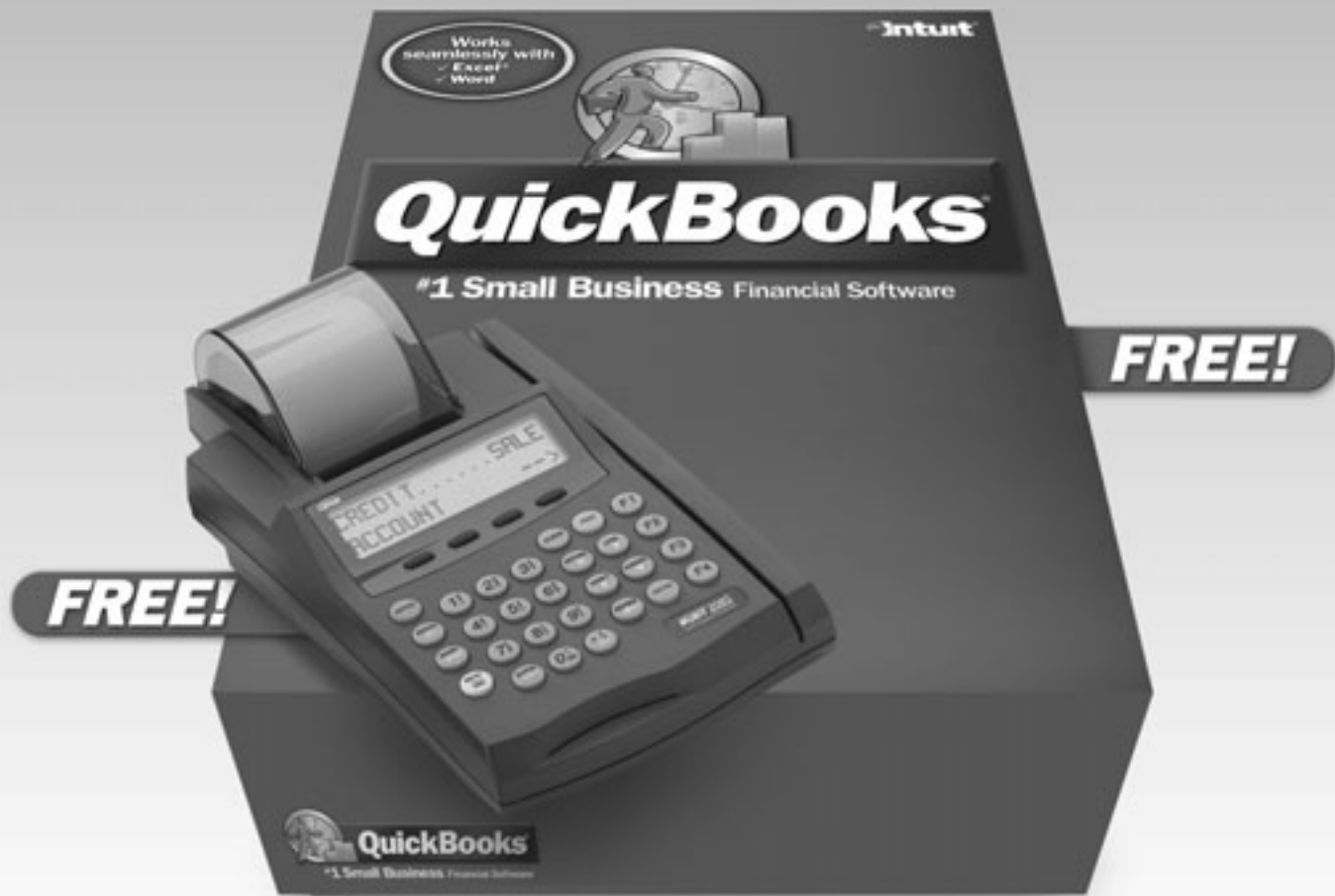
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IndustryUpdate

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NEWS

First Data plans U.S. platform consolidation

Beginning in 2007, **First Data Corp.** will consolidate its 13 U.S. merchant platforms down to four. The company will also reduce its 12 U.S. data centers to three and its seven command centers to two.

Chairman and Chief Executive Officer Ric Duques estimated the project would begin in late 2007 and take 2.5 years. The company also plans to reduce the number of application platforms. Duques said a timetable would likely be ready by the third quarter of 2007.

"Our investment in technology will yield not only fewer physical locations, but significantly more efficient processing environments," Duques said in a conference call with investors. "The first step is to review our plans with our clients. We want to make sure they know what we're doing."

First Data reported commercial services revenue for 2006 of \$4.1 billion, up 7%. The company added 139,000 merchant locations during the fourth quarter and 600,000 locations during the year.

First Data also added 26 ISOs, bringing the 2006 new-ISO total to 115. Duques said the company had sold 78,000 FD-100 payment terminals, which were introduced in September 2006.

FDIC defers decision on Wal-Mart bank

The **Federal Deposit Insurance Corp.** deferred for a year its decision on Wal-Mart's application to buy an industrial loan company (ILC). On Jan. 31, the FDIC extended its moratorium – which began July 28, 2006 – on retailers chartering or acquiring ILCs.

Rep. Paul Gillmor, R-Ohio, and House Financial Services Committee Chairman Barney Frank, D-Mass., had requested the extension, which gives Congress time to act on the Gillmor-Frank ILC reform bill. "It is vital that Congress acts to close this loophole, which is ... eating away at the separation between banking and commerce," Gillmor stated.

Vendors form PCI alliance

Eight data security companies formed the **Payment Card Industry Security Vendor Alliance (PCI SVA)**. The organization will educate the business community on the PCI Data Security Standard (DSS).

Founding members include Configuresoft Inc., Cyber-Ark Software Ltd., Modulo Security, Proginet Corp., Protegrity Corp., Reflex Security Inc., SafeNet Inc. and VeriSign.

The PCI SVA will present case studies, seminars and ROI analyses showing how organizations may efficiently achieve compliance. The alliance advocates compliance with the PCI DSS to meet national and state laws governing security and privacy. For information, visit www.pcialliance.org.

BOTTOM
LINES

HEADLINES
FROM THE
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- The **National Retail Federation** attributed a jump in retail store sales for January – historically the industry's slowest month – to gift card redemptions. Retail industry sales (which exclude automobiles, gas stations and restaurants) rose 5.3% over January 2006.
- The **Aberdeen Group** reports that 84% of retailers surveyed conduct sales in more than one channel (for example, stores and Internet or Internet and call center). Customer expectations of seamless purchase and delivery options across channels are a driving factor for 67% of retailers.
- In a poll of 2,214 adults conducted by Harris Interactive for the **Merchants Payments Coalition**, 91% did not think credit card companies should be allowed to set interchange fees without notifying consumers.



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Jason A. Felts President / CEO

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Industry Update

MasterCard sees GDV increase

During the fourth quarter of 2006, MasterCard Inc.'s domestic gross dollar volume (GDV) increased 13.8% to \$532 billion.

The number of transactions increased 17.4% to 4.4 billion. As of Dec. 31, 2006, 817 million MasterCard-branded cards had been issued worldwide, an increase of 12.3% over 2005.

Net revenue for 2006 was \$3.3 billion, a 13.2% increase over 2005. The company increased its dividend from \$0.09 to \$0.15 per share.

EMG celebrates 10th year, will open four branches

Eliot Management Group celebrates its 10th anniversary in 2007. With 21 branches currently, the ISO will add four sales, service and support facilities in Anchorage, Alaska; Los Angeles; Oklahoma City; and Salem, Ore.

Equity Commerce posted 600% growth

Equity Commerce LP posted 600% revenue growth for its second full year of operation, driven by 465% growth in dollar volume and a 612% increase in transactions. Agent recruitment and organic growth in the existing portfolio fueled the trend.

Euronet makes list of growth companies

Euronet Worldwide Inc. was ranked No. 7 on *Forbes'* annual list of the 25 fastest-growing technology companies. Euronet, with a five-year annualized sales growth of 69%, was added to the list this year.

Panini is leading check scanner provider

Research conducted by Celent LLC verified that Panini has installed more than twice the number of check scanners at the top 100 U.S. banks than its closest competitor.

ANNOUNCEMENTS

Alpha Card launches Zero to Remember

Alpha Card Services Inc. released its Zero to Remember program, which enables merchant level salespeople to offer zero transaction and statement fees. Also, for the 13th consecutive month, customers experienced zero hold times for technical support and customer service in December 2006. The company guarantees residual payments by the 20th of each month.

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IndustryUpdate

Real estate payment provider completes SAS audit

PropertyBridge Inc. has completed the American Institute of Certified Public Accountants' Statement on Auditing Standards (SAS) No. 70, Type II audit. The review reportedly is the first to be completed by a service provider offering more than three payment types to property-management organizations.

Rent processor designated level 1

RentPayment, a payment processor in the multifamily housing industry, has been recognized as a level 1 service provider by Visa U.S.A.

Synovus joins NACHA

Synovus Financial Corp. has joined NACHA – The Electronic Payments Association, bringing the number of direct members to 41.

TSYS announces jump in net income

TSYS Acquiring Solutions announced record results for 2006, with revenue of \$1.8 billion and a 75% increase in net income in the most recent quarter over the same period in 2005.

UBC signs 20 financial institutions

United Bank Card Inc. established agent agreements with over 20 banks, credit unions, and savings and loans in 2006, giving ISOs tools to expand their sales opportunities.

PARTNERSHIPS

AmeriMerchant chosen by Bankcard Pros

Merchant cash-advance supplier AmeriMerchant has been exclusively included by Bankcard Pros in its Bankcard Account Tracking software.

Central Atlantic Merchant Services changes gift card platform

Central Atlantic Merchant Services has transferred its gift card program customers to the Smart Transaction Systems platform.

CIT Global looks to Dunn

CIT Global has contracted with Mark Dunn, President of Field Guide Enterprises LLC, as a sales and marketing consultant on its MaxPro product.

CrossCheck certifies WnetCheck

Medasyst Inc.'s WnetCheck has been certified by CrossCheck Inc. to provide merchants with check processing via the CrossCheck network.

DTI signs car dealers, supplement marketer

Direct Technology Innovations will provide credit card processing services to clients of AutoGro, a buying consortium for car dealers in Florida. In other news, nutritional supplement marketer AmeriSciences has chosen DTI as its preferred merchant service provider.

ISO taps into startups with IncFile.com

Fast Transact Inc. formed an alliance with IncFile.com LLC, a provider of business-incorporation solutions, to jointly market their product offerings for company formation and merchant services.

First Data certifies ACH Direct, signs Pakistani bank

First Data has certified ACH Direct Inc.'s PaymentsGateway to process credit card payments. Alfalah Bank, a leading card issuer and merchant acquirer in Pakistan, has signed a five-year agreement with First Data for card processing services.

First National Merchant Solutions offers retailers Bill Me Later

Home Décor Products Inc., NetShops Inc., Toshiba America Information Systems Inc. and Sharper Image have expanded their relationships with First National Merchant Solutions to offer shoppers Bill Me Later, a credit-based payment option.

Global Payments to put LightSpeed in 13 casinos

Global Payments Inc. announced agreements to provide its VIP LightSpeed cash-access products to 13 U.S. and Canadian gaming establishments.

AADOM picks HealthCard Systems

The American Association of Dental Office Managers endorsed HealthCard Systems as its preferred processing partner for its 1,800 members nationwide.

Partnership adds fingerprints to school lunch system

M2SYS Technology partnered with Schoolhouse Software, a provider of K-12 lunch-line management systems. Schoolhouse will integrate M2SYS' fingerprint software, Bio-Plugin, into its Touch-n-Serv school POS solution. Fingerprint authentication reportedly will speed lunch lines, eliminate ID cards and lunch tickets, and improve record keeping.

Moneris teams with esportsdeskpro.com

Moneris Solutions will offer Web-based payment services to the athletic-league clients of Recreation Sports Management Inc.

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Industry Update

Nexternal supports FlexCache, Paymentech supports Vista

Nexternal Solutions now supports Chase Paymentech Solutions LLC's FlexCache gift cards. Also, Chase Paymentech will provide credit card processing to small businesses via the Windows Vista Business operating system.

NOVA picks bay6, certifies ComsGate

NOVA Information Systems selected bay6 LLC to provide a customized version of its back-office enterprise software for NOVA's Electronic Check Service. NOVA also certified Comstar Interactive's ComsGate payment platform.

StoreNext to resell Pay By Touch

StoreNext Retail Technologies LLC will resell and support biometric authentication and payment service from Pay By Touch to independent grocers, in conjunction with StoreNext POS systems.

Precidia chooses Traf-Sys technology

Precidia Technologies Inc. chose Traf-Sys Inc.'s people-counting technology for large retail chains.

Postilion chooses Retailx solutions

Retailx will deliver to Postilion Inc. an integrated commercial fueling solution for travel centers and an open-systems payment switch for credit and debit transactions for convenience stores.

Shift4 partners with restaurant POS provider

Shift4 Corp. and 1TouchSoftware Solutions Inc. partnered to offer secure payment processing to independent quick- and table-service restaurants.

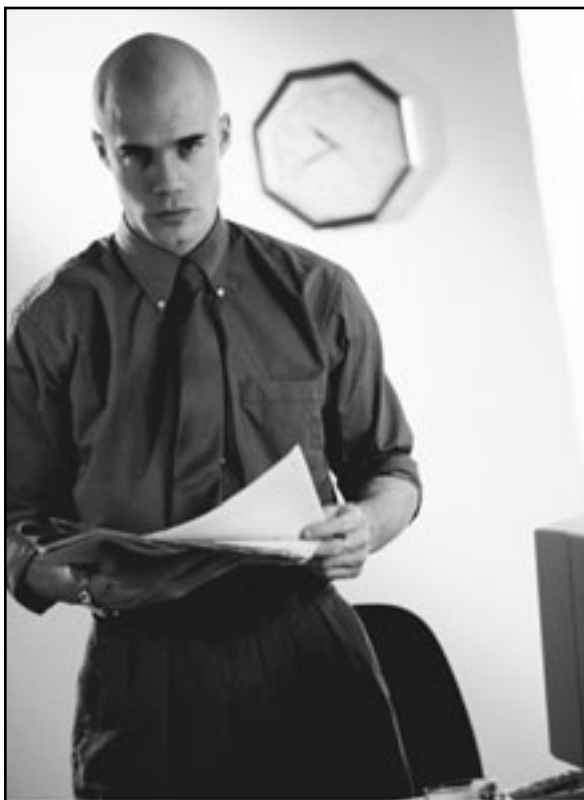
SecurityMetrics validates toolkits

Slim CD and SecurityMetrics have teamed to provide toolkits and discounted validations.

Slim CD's POS developers' and Web toolkits reportedly have been validated as meeting Visa's Payment Application Best Practices standard.

IBB partners with UBC

United Bank Card will offer comprehensive merchant solutions to member institutions of Independent Bankers' Bank.



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Industry Update

Stores pick VeriFone signature capture

Stop & Shop and Giant-Landover food stores have selected VeriFone's MX870 customer-facing payment system with signature capture.

Broadway goes Visa Contactless

Sandbar Concessions, concessionaire for several Broadway theatres, now accepts Visa credit, debit and contactless payments to speed service during intermissions. Chase Paymentech implemented the installation of ExaDigm Inc. mobile payment terminals throughout the theatres.

ACQUISITIONS

ActiveCore enters electronic payments market

ActiveCore Technologies Inc. has transitioned its business activities to the electronic payments industry with two acquisitions. The company purchased ePocket Inc., which enables bank customers to make payments from deposit accounts, and CyBux, which runs an online payment system in Canada. In 2006, ActiveCore sold its business units not related to the payments industry.

AmbironTrustWave acquires security services firm

AmbironTrustWave has acquired managed-security provider SecurePipe. The company will continue to support SecurePipe products and services, including network security monitoring.

Euronet buys La Nacional

Euronet will acquire New York-based Envios de Valores La Nacional Corp. and its U.S.-based affiliates. La Nacional provides money-transfer services from 15 domestic states to Latin America.

Gravity acquires portfolio

Gravity Payments acquired a portfolio of 405 merchants. The acquisition adds \$120 million in volume to its portfolio.

Hypercom expands POS offerings with TPI

Hypercom Corp. acquired TPI Software, a provider of PC credit/debit/gift card, automated clearing house (ACH) and check processing software.

Metavante acquires Valutec

Metavante Corp. acquired Valutec Card Solutions Inc., which provides gift and loyalty card solutions to small and medium-sized businesses. The subsidiary will continue to operate under the Valutec name.

Two ACH processors merge

Smart Payment Solutions LLC merged with Automated Financial Group. Both companies provide ACH processing. Smart Payment also offers credit card merchant accounts.

Sterling buys Lakeside Ventures

Sterling Payment Technologies will acquire the ISO Lakeside Ventures LLC.

TASQ integrates Canadian POS software supplier

First Data subsidiary TASQ Technology entered the Canadian market with First Data's acquisition of Solika Solutions Inc., a Canadian provider of inventory-management POS solutions.

APPOINTMENTS

MasterCard adds two to board

MasterCard elected Nancy J. Karch and Tan Teong Hean to its board of directors. Most recently, Karch was a Senior Partner at McKinsey & Co.

She also serves on the boards of Liz Claiborne, Genworth Financial and Corporate Executive Board Co.

Until 2006, Tan was CEO of Southern Bank Berhad and a Director on MasterCard's global and Asia/Pacific regional boards. He is Chairman of MasterCard's Asia/Pacific regional advisory board.

Consulting firm promotes four

First Annapolis Consulting announced four promotions: Dan Kreis, Scott Reaser and Nelson Irizarry were promoted to Principals. Erik Howell has been promoted to Senior Consultant.

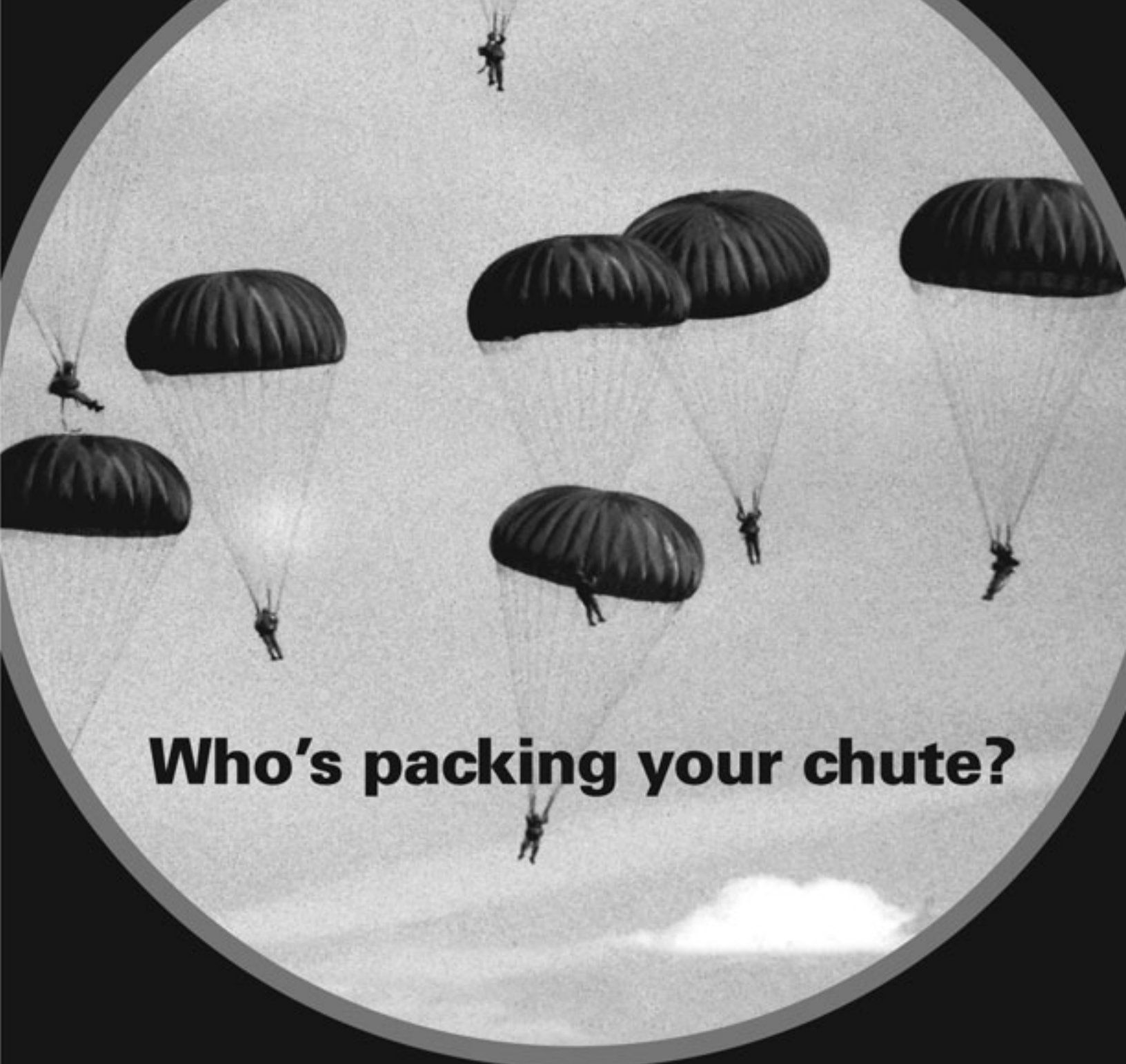
Federated Payments appoints two

Federated Payments appointed Stacey Scott Director of Operations. Scott has over 12 years' experience in the merchant acquiring industry. She has worked with Hypercom, VeriFone, Vital Processing Services and Heartland Payment Systems.

The company also promoted Joanne Vassallo to Corporate Sales Manager. Vassallo most recently served as Director of New Accounts and Director of Special Projects.

Tartavull named Hypercom President

Hypercom appointed Philippe Tartavull President. He comes to the company from Oberthur Card Systems USA, where he was President. ☐



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Feature

Lawsuit challenges interchange practices

By Lynn Walford, Contributor

ATMmarketplace.com

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The subject of ATM interchange fees is a touchy one. Cardholders want the convenience of getting cash anywhere, anytime, but hate the costs associated with it.

Deployers – especially ISOs – depend on the fee for income, but hate the behind-the-scenes manipulation of its implementation.

Making times especially difficult are the lingering impacts of Visa U.S.A.'s move to tiered interchange fees in October 2005, and a California class action lawsuit plodding through the courts since 2004. The double-whammy has some ISOs writhing in discomfort.

"We're getting squeezed ... with the tier 1, tier 2 restruc-

ture of Visa Plus interchange rates, an added Cirrus MasterCard fee, the NYCE increase, new agreements, and background checks," said De Lone Wilson, President of Jackson, Miss.-based NetBank Payment Systems Inc., ranked the nation's third-largest ISO.

"We don't have a voice or choice in the situation," he said.

Visa's interchange-fee restructuring stung ISOs, Wilson said, because they perceived it favored mid-sized to large financial institutions (FIs).

To qualify for tier 1 status, and pull the highest interchange rate of \$0.50 per cash withdrawal, Visa came up with a list of requirements that include the use of a level 1 safe, nondial telecommunications and armored-car vault-cash replenishment – expensive tools more characteristic of FI programs, not independently operated ones.

ISOs argue they are being unjustly penalized: Because they have a sponsoring FI, they already comply with the same federal mandates and regulations as FIs and therefore warrant equal treatment.

ATM operators that fall under tier 2, pull \$0.10 less – \$0.40 – per cash withdrawal.

MasterCard also adjusted its interchange fee in April 2005, but ISOs didn't balk at that announcement because the fee-change affected all ATM operators the same.

MasterCard now necessitates that acquirers pay \$0.05 for each domestic ATM withdrawal and \$0.25 per ATM withdrawal made by international cardholders in the United States.

Visa defends the tiered approach as a way to better balance the issuer-acquirer relationship, since there are "significant differences in ATM portfolios in terms of cost, security and cardholder value."

A court challenge

Meanwhile, in a federal courtroom in California, a lawsuit is challenging not only the means by which some interchange fees are set, but the fee itself.

In July 2004, attorneys initiated a class action suit on behalf of ATM cardholders in U.S. District Court, Northern District of California, against several deployers, including First Data Corp.'s STAR Network and Bank of America Corp.

The suit claims the organizations conspired to "fix" interchange fees – that is, agree to a single fee, precluding any one of them from charging less than the others – and thereby broke antitrust laws.

Consumers are hurt twice, plaintiffs contend: By the fee

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Feature

"Until all market players are satisfied with how interchange rates are set, we will continue to see lawsuits trying to establish the business model that is most favorable to them."

- Eva Weber, Aite Group LLC

itself, and by paying an amount fixed not by competitive market influences, but by mutual agreement of the various companies charging it.

"As a result, the depositor pays for the same transaction twice – surcharge set at competitive rates to the ATM owner and a foreign ATM fee to its bank, which is artificially inflated by the fixed – and unnecessary – interchange fee," the suit alleges.

In late November, a U.S. District judge sent the opposing parties back to the discovery drawing board, citing in his memo that neither side had adequately addressed whether the STAR Network's interchange fees are restraining trade or are unreasonable.


In that memo, Judge Charles R. Breyer said that if the defendants "can set forth evidence to support plausible,

pro-competitive justifications for their agreement to fix the interchange fee, then the Court would have to examine their agreement under the rule of reason."

One of the plaintiffs' attorneys, Joseph Saveri, a Partner at San Francisco-based Lief, Cabraser, Heimann & Bernstein LLP, said the networks and banks don't have a right to set interchange fees.

"There should be competition and a free market," he said. Saveri also suggests competition may lead to negotiated interchange fees.

Eva Weber, an industry analyst with Boston-based Aite Group LLC, said she doesn't believe the interchange debate will end anytime soon.

"Interchange rates are certainly a bone of contention," she said. "And until all market players are satisfied with how interchange rates are set, we will continue to see lawsuits trying to establish the business model that is most favorable to them." 

Link to original: www.atmmarketplace.com/article.php?id=8394

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Insider's report on payments**NEAA meeting spotlights payments in transition****By Patti Murphy***The Takoma Group*

The payments space is in transition. This is probably no surprise to anyone reading this column. But passages don't have to be hardships. Indeed, opportunities aplenty remain to grow payment businesses – from deals made by the feet on the street to new initiatives at the brand level, and points along that continuum.

That's one of the messages I came away with from the Northeast Acquirers' Association (NEAA) recent Winter Seminar in Mt. Snow, Vt.

Sure, it's held at a ski resort, but this NEAA meeting is more than a snow fest. (This year, especially, since winter had not yet set in on New England, and much of the snow on the slopes was manufactured.)

The event is a great opportunity to meet and learn from your peers and others. After a day packed with educational sessions and time with vendors, I could feel the energy and optimism that undergird successful businesses in this space. And I don't believe I was alone.

Strategies for growth and financial success

"The key to this business is planning," said Greg Cohen, President of Moneris Solutions USA, in discussing strategies for growing from a merchant level salesperson (MLS) to a mega-acquirer. And he advised attention to details, especially metrics. "Without systems and up-to-date metrics, you're dead in the water," Cohen said.

Adam Atlas, an attorney representing ISOs and MLSs, had similarly sound advice for those looking to grow and/or migrate merchant portfolios. "I recommend growing one step at a time," Atlas said. He also advised going the extra mile in providing service to merchants. "It's good to get residuals, but they're not going to continue if service slips," he said.

Also on the agenda: a panel of financing executives who discussed a range of financial resources for transaction acquiring businesses.

"This is not a profit and loss business; it's a balance sheet business," said Harold Montgomery, founder and Chief Executive Officer of Calpian, an ISO that has expanded to offering financing options to other ISOs, large and small. "You need to take a longer perspective," he counseled.

This is especially true in a time of transition. Montgomery said he sensed the industry was at "the beginning of a hyper-competitive period, and we're going to see price wars like what happened in telecommunications" back in the 1990s. "Companies are going to need plans for how to scale in this kind of market," he said.

David Putnam, President of Resource Finance Co., also fielded questions about ISO borrowing options. Putnam, a former lawyer and investment banker, has been offering residual-backed debt-financing to ISOs for the past seven years through this company.

Putnam suggested that ISOs are better served borrowing against residuals than with traditional loan

vehicles. "You need to compare the cost of money to what you can derive from a loan," he said.

Above all, Montgomery advised ISOs to "find the financial resource that will be the best partner for you when it comes to achieving your goals over time. The price or cost of your financing is secondary at best," he insisted.

"Your ability to work with the resource over time and the resource's knowledge of your business and willingness to back you is much more important than the cost of capital."

A new model for Discover

At the brand level, Discover Financial Services LLC addressed the NEAA Winter Seminar. Talk about transition. Discover epitomizes the capricious nature of payment businesses.

Sears, Roebuck & Co. rolled out Discover cards with a great deal of fanfare about 20 years ago. Sears was one of the larger, more profitable retailing companies at the time and eager to build a financial services brand. It had an investment banking unit (Dean Witter) and a profitable store card portfolio. Back then, many saw Discover as an attempted end run around the bankcard systems.

▶ **"The key to this business is planning. ... Without systems and up-to-date metrics, you're dead in the water."**

– Greg Cohen, President,
Moneris Solutions USA



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View

Sears eventually divested its financial services unit. And most recently, Morgan Stanley (the Wall Street firm formed when it merged with the former Sears' unit) announced a spinoff of Discover, which is expected to be completed sometime during the third quarter of 2007.

The Discover spinoff comes at an opportune time: 1) A series of legal challenges have made it possible for nonbank card brands to compete head on with MasterCard Worldwide and Visa U.S.A.; 2) Discover owns Pulse (a large PIN debit network); and 3) changes in Visa's and MasterCard's ownership and board structures signal an end to the days when bankcards were distinguishable from credit cards.

As it ventures out on its own, Discover boasts more than 20 issuers, according to Dan Collins, Discover's Relationship Manager, Indirect Merchant Sales. There are high hopes for international expansion as well: Nearly 1 billion Discover cards have been issued through banks in Asia, which is considered the fastest growing market for retail payment products.

On the other side of the card equation, Collins noted, Discover is working on systems integration strategies

with seven of the 10 largest card acquiring companies. And he said Discover is developing a new acquiring model to make it more worthwhile for ISOs and MLSs to sell its brand.

This is a huge departure for Discover, which traditionally relied on in-house merchant acquisition. But then, Discover is a changing company staking a claim in a changing industry.

Like most vibrant things, the payments space is in a constant state of flux. These shifts don't have to be hardships, though, and more often than not they are not. Brands like Discover and American Express Co. (which also has bank issuers) competing directly with MasterCard and Visa should create new opportunities for feet on the street, processing companies, and merchants and consumers.

Regional meetings like the NEAA's (and there are similar events in the Southeast, Midwest and West) provide valuable resources for professionals in the payments space to learn about existing and emerging opportunities. ☐

Patti Murphy is Senior Editor of The Green Sheet and President of The Takoma Group. E-mail her at patti@greensheet.com.

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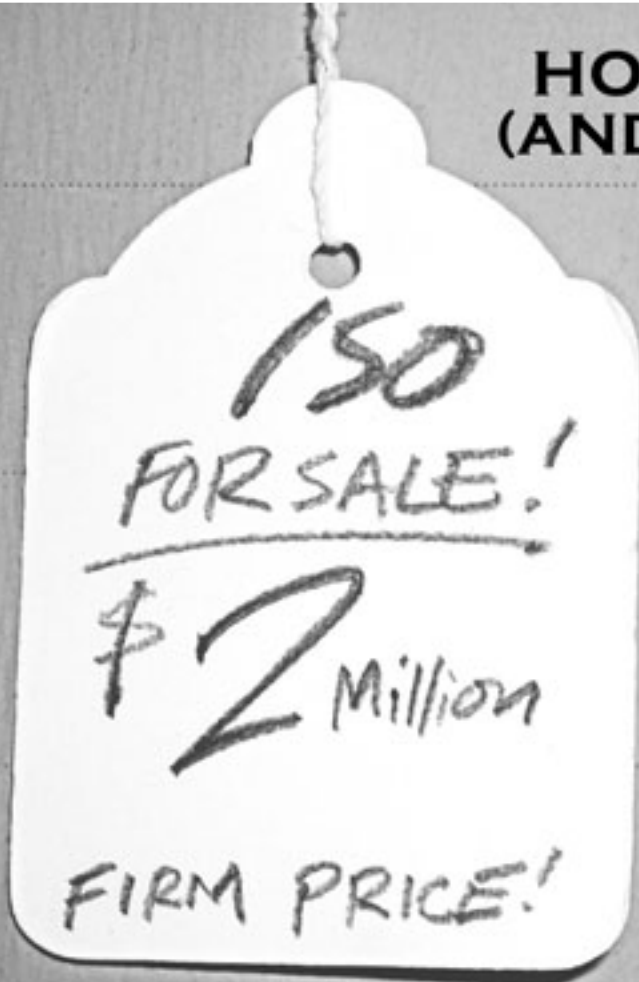
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Even newbies should outsource

By Biff Matthews

CardWare International

"**W**ork on your business, not *in* your business" is a familiar motto. It's also a wise credo for new merchant level salespeople (MLSs). When you follow this advice, you focus directly, and almost exclusively, on income-producing activities.

A DIY mentality is fine for weekend handymen. But there are compelling reasons to outsource tasks outside your core competence to a knowledgeable entity that can deliver economies of scale. There's much to be gained by maximizing your strengths and finding partners to supplement your weak areas.

Cost is involved. But saving a dollar versus earning five is not a difficult choice. If you're obsessed with cutting corners, you'll never grow your business to its full potential.

What should be outsourced?

The MLSs I've known in my 30-plus years in business have benefited most by outsourcing these tasks:

- Routine merchant service and help desk
- Equipment programming and deployment
- Kitting
- Chargeback management
- Encryption
- Statement preparation
- Merchant training.

The most critical are the first two, which typically drive the other operational functions.

In general, successful MLSs have excellent sales abilities and so-so business-operations skills. It's no surprise. Individuals who are top performers in one area tend to underachieve in the other.

Professionals in each discipline need working knowledge of the other. But most individuals perform best when working to their strengths.

How do I find a partner?

So, what should an MLS look for in an outsource partner? Overall payments industry knowledge is first. Experience is second. The two do not necessarily accompany each other.

Technology tools are also important, along with a potential partner's commitment to the work at hand. Measure this by resources the company has invested in people and training.

Checking references is essential. The references I request are unconventional.

A business will not include on its reference list individuals who won't endorse it. So, to get the clearest picture, I also request that a prospective partner provide names of former customers and companies that, for one reason or another, did not become clients.

I weigh the comments of these parties carefully, along with the reasons why, in the case of noncustomers, the fit didn't make the grade. And I compare this information with my own company's requirements.

In a surprising number of cases, I end up hiring the company that did not win the business of the reference I consulted.

The needs of my company and the other firm could have been radically different. Fit is, after all, everything when it comes to a working partnership.

If you don't have similar core values and goals, you're not going to have a successful working relationship.

For references doing business with a company I'm investigating, I ask why they selected the firm and why they have stayed in the relationship.

I want to find out what value they are receiving. In addition, it's revealing to ask what events would cause them to terminate the relationship.

This approach penetrates propaganda and allows me to make the most informed decisions possible.

How are problems resolved?

No partner is perfect. Occasionally, companies fall out of compliance with the agreed-to level of service. Find out if the vendor notifies customers of problems before they discover issues themselves. And once addressed, how are problems resolved? With what frequency do they recur?

The main thing you want to ascertain is whether the partner responds to problems with band-aid relief or meaningful solutions.

Next, get inside the head of the company you're working with, and vice versa. A sound marriage is based on straightforward communication; so is a sound business partnership.

It's important for the parties to get in sync, as well as



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View

establish short- and long-term exit strategies in case the relationship proves to be unsound.

The best outsource partner is also one for whom you are an important client. In addition, a partner should support your activities as you grow.

This may require choosing multiple partners for the various skill sets. An individual or team that excels in one area may not be proficient in another. However, one partner may be proficient in many areas.

Also, visit the offices of any outsource partner you are considering. A site visit quickly cuts through veneers and public relations smoke screens. It enables you to confirm, for example, that your potential outsource partner is not outsourcing the services it provides.

How do I maintain the relationship?

Outsourcing is critical to the growth of any new business. With this tool, new and seasoned MLSs can generate abundant new sales. But if the business you bring in is not serviced and retained, your success will be limited: You'll never maximize the value of your time.

Identifying partners that can enhance your success is every bit as valuable as sales expertise. Once you've quali-

fied your outsource partner, pay a fair price for service. You must be profitable to succeed; your partner must be profitable as well.

You want the vendor to be in business long after you have sold your portfolio. (This happy scenario will not occur if you outsource to Bangladesh, with or without a site visit.)

Finally, you should not have to micromanage a partner. The firm should be able to achieve what you hired it to do without continuous hand-holding. If you have to walk a new partner through procedures beyond the first few days, you haven't chosen well. Consider making a new choice.

Also, if you are a startup venture, recognize you are a customer of value. But other customers are valuable, too. Be patient, and be open to your partner's insights. Like parachutes, all minds function best when they are open. ☐

Biff Matthews is President of Thirteen Inc., the parent company of CardWare International, based in Heath, Ohio. He is one of 12 founding members of the Electronic Transactions Association, serving on its board, advisory board and committees. Call him at 740-522-2150 or e-mail him at biff@13-inc.com.

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IndustryLeader

The accidental advocate

Have you heard of Sell it Safe Inc.? Also known as SellitSAFE.com, the company monitors hacker chat rooms and maintains a database of compromised credit card numbers and related identity theft information.

It shares the data with e-commerce and MO/TO merchants and consumers to help prevent credit card fraud.

Steven Peisner is SellitSAFE.com's President and Director. He is also Vice President and Director of Acquiring Solutions International Inc., as well as Director of ASI's subsidiary, Worldwide Payment Solutions Ltd.

Peisner established SellitSAFE.com a bit by chance. In 2004, he was processing credit card transactions for PeopleData.com. One of his merchant customers was suffering excessive amounts of fraud and chargebacks, so much so that the merchant's acquiring bank issued a 60-day termination notice on the account.

After searching for a solution and coming up empty, Peisner created his own method for reducing the merchant's fraud. It was intended for that client only, but it worked so well, he tested it on other businesses. Time and again, it worked.

Peisner thought more companies might benefit from the service. He needed some research to test his hunch. However, purchasing research data was cost prohibitive for a company that didn't even exist yet.

So he did his own. He culled information from hacker chat rooms and blogs and then phoned people whose data had been compromised.

Spreading the word

Finding that most people did not know the extent to which their personal information was at risk, Peisner realized he had an opportunity to help merchants and consumers alike. He named his service SellitSAFE and began offering it to the merchant community.

Every day, Peisner calls five to 10 people to tell them they are victims of identity theft and to notify the authorities and credit reporting agencies.

Peisner's commitment to fraud prevention reaches far beyond his company. He is a member of the Electronic Transactions Association (ETA) and serves on the association's Government Relations Committee.

He is also a member of the ETA's Merchant Acquirers Committee and Chairman of its Finance Committee. He previously was on the organization's Risk and Fraud Management Committee.

He is a member of the International Association of Financial Crimes Investigators and the Direct Marketing Association. He is also a Civilian Volunteer with the Los Angeles County Sheriff's Department.

▶ **"I see myself as a merchant advocate. I would like to have an active role in changing [some] of the rules that are in place with respect to chargebacks and merchant processing."**

- Steven Peisner

A family business

Like many financial services professionals, Peisner did not start his career in the merchant services industry. One of his first jobs was selling life insurance for his family's business.

He soon switched gears and started selling commercial liability insurance to retailers and building contractors. Peisner found this avenue more suitable because he didn't have to force people to face their own mortality.

And, he was selling something his clients needed. "Businesses needed insurance," he said. "If you beat the price, you won."

One day, Peisner's father asked him to attend a training session on credit card terminals. His dad and a partner had invested \$100,000 in bankcard processing and were hoping Peisner could convince some of his retail customers to switch to the elder Peisner's processing company.

Also, since Peisner was struggling a bit, his dad thought his son might benefit from selling credit card terminals. So, the younger Peisner took a break from calling on insurance customers, jumped in the car and drove



On September 29, 2006, Iron Triangle Payment Systems ("ITPS") completed its previously announced acquisition of the Independent Sales Organization ("ISO") merchant processing businesses of BA Merchant Services. As many of you know, we also acquired the National Processing Company and NPC brand names, and related logo from Bank of America. We are pleased to announce that in conjunction with the closing of this transaction, ITPS has been renamed National Processing Company ("NPC")!

This change will constitute the reemergence of NPC as an independent company. More importantly, by combining the acquired assets with Retriever Payment Systems, which has operated as a wholly owned subsidiary of ITPS, the "new" NPC now represents the most focused and dedicated provider of products and services to the ISO channel. Based upon the number of merchant locations served, NPC now ranks as the sixth largest merchant acquirer in the United States. With investments of nearly \$700 million in the past two years, no other entity in our industry has committed more resources to supporting an ISO centric business model.

In addition to these significant investments, we have assembled a deep and talented team of industry veterans to support the growth and expansion of our ISO customers. We understand that by helping our distribution partners expand their business, we too will enjoy growth and success. Our top twenty executives average over 15 years of industry experience and lead a staff of over 400 dedicated and highly motivated employees. Our entire organization is aligned and focused on one common goal:

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Tom Wimsett
President and CEO
National Processing Company



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▶ **"'Do you want to buy any candy?' was the wrong question because eight out of 10 times the answer is no."**

- Steven Peisner

90 minutes to the training. Peisner recalls the experience vividly. It lasted three hours and had 10 attendees whom Peisner suspects were lured by the free coffee and donuts.

He received a binder with pictures of two terminals. He was told the rates, where to have his merchants sign applications and leases, and how to read a merchant statement. When the training was over, Peisner left the venue wondering if he'd missed something.

When he returned to his office, he called his dad. "I asked him if he could get his money back," Peisner said. "When he asked, 'Why?' I told him that the only thing the training was missing was a few key elements like prospecting, probing, objections and closing."

But, the training did get Peisner's attention because he had the chance to earn \$150 per lease if he sold 10 deals a month, \$250 each if he sold 20 a month and \$350 each if he sold 30. So, he developed his own pitch.

Armed with a recent diploma from the Xerox Phase Three Sales Skills School, Peisner was ready to go. "I was hungry and eager to put my new skills to work," he said. "I put together a flip book and hit the streets."

He sold three deals his first day and pocketed \$450. After three months of selling terminals, he told his dad he was quitting the insurance business.

Peisner looks back on those days with fondness. "Back then you could cold call all day long, walking in and out of businesses, and merchants actually were happy to see you," he said. "Those were the good old days."

A salesman from the start

From a very young age, Peisner knew he was destined to work in sales. In school, he was the first to volunteer for fundraising projects, such as selling candy for Junior Achievement.

Trekking door to door he learned early on about sales and closing. "'Do you want to buy any candy?' was the wrong question because eight out of 10 times the answer is no," he said.

"I quickly learned to ask, 'Do you want one box or two?' and then kept my mouth shut. Usually someone would buy at least one box. Some principles still work today."

Since then, he has held a variety of positions within the bankcard industry. He founded Shared Information Systems and was responsible for the sales, marketing and product management of nochargebacks.com, an Internet-based business services resource.

In addition, he was Vice President of Bankcard Relations for E-Commerce Exchange; co-founder of Worldwide MerchantServices; and Vice President of Sales for Cardservice 1st NFS, the leading agent for Cardservice International (CSI).

He was also Special Accounts Manager for CSI headquarters.

Some great influences

Peisner pointed out that while he started his sales education early, he did not achieve successes alone.

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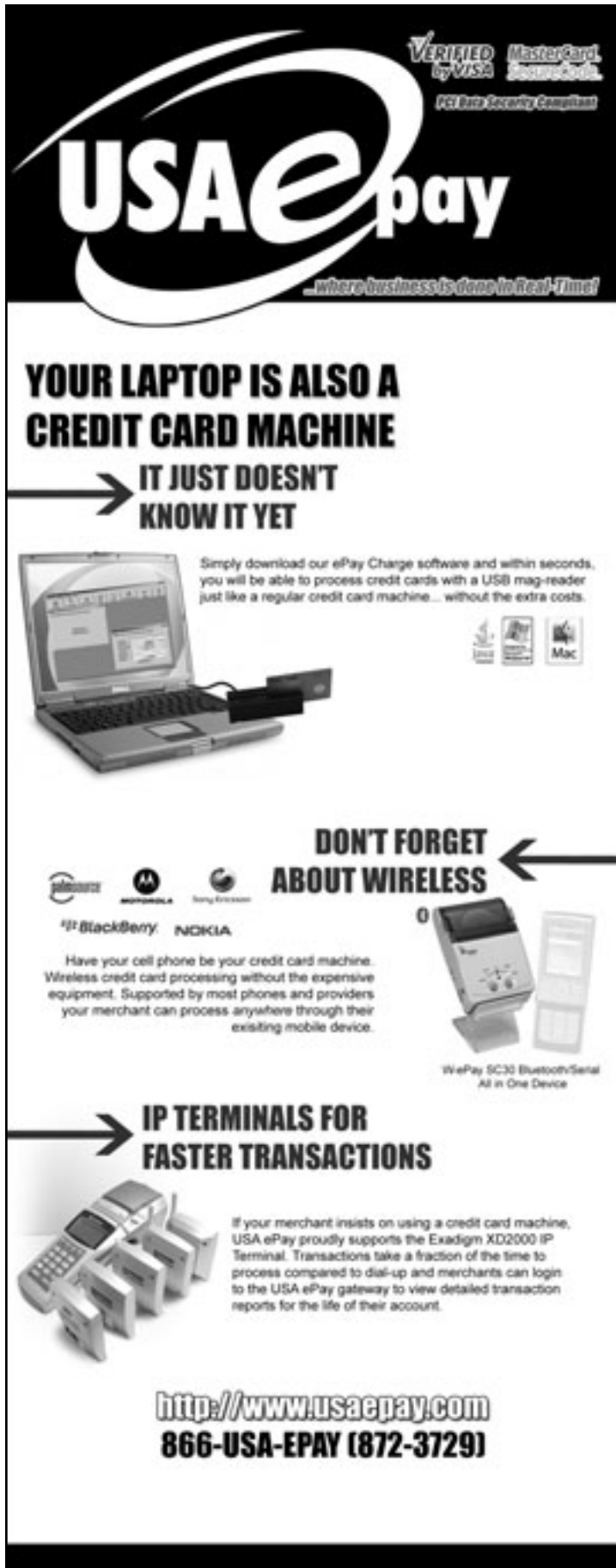
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He was lucky to have been mentored by three remarkable men.

He proudly considers his dad his first mentor. "My dad gave me some really great advice 21 years ago when I started in this industry," Peisner noted.

"Steven, pick one thing and be the best you can be at it,' my dad said to me. And it is what started me on what continues to be a great career."

Peisner was also fortunate to learn from industry veteran Florian DeVitis, Chief Executive Officer of TransOne Merchant Services.

Their first real encounter was when DeVitis fired him for showing up three hours late to a sales meeting. "I proceeded to tell Florian, 'I take orders from two people here – my old man and his partner – that's it,'" Peisner said.

Peisner marched into his dad's office and relayed the story, looking for an ally. Instead, his dad told him to get his résumé together and search the want ads.

"With my tail between my legs I asked Mr. DeVitis for a second chance," he said. "And with that, I never missed another sales meeting."

That same day DeVitis promised him a management position, and a year later Peisner was a manager. Peisner clearly remembers DeVitis' "one-minute management training" advice:

"Salesmen don't want to hear how great you were, they want you to listen to how great they are. Forty deals a week or you're fired."

While Peisner's first two mentors were those with more experience than he, he has also been mentored by his peers, including Michael Fisher. He and Fisher met while working for CSI. They have been partners at Acquiring Solutions International Inc. since 2001.

"Many years ago Mike brought to my attention that I was not saying please or thank you to people who worked with us," Peisner said. "I have been using those little words ever since."

No regrets

Peisner wants to take action and never look back with regret. "Joe Kaplan once told me, 'It's about taking risk and owning it,'" Peisner said.

"That same philosophy is why we started SellitSAFE.com," he added. (After almost a decade of industry success, Kaplan co-founded mega processor Innovative Merchant Solutions in 1999. He sold it to Intuit Inc. in 2003.) Another of Peisner's philosophies is one he teaches his merchants: "It's not

how much you make, it's how much you keep."

Peisner works on the acquiring side of fraud prevention. But, his ultimate goal is to expand these efforts to encompass the consumer side of the equation.

"I see myself as a merchant advocate," he said. "I would like to have an active role in changing [some] of the rules that are in place with respect to chargebacks and merchant processing."

Peisner is realistic, knowing that fraud can never be completely eradicated. "We know we can never eliminate it," he said. "It's spy versus spy. If we build a 10-foot wall, they build an 11-foot ladder."

His goals are to provide a service that cardholders use to reduce identity theft, as well as to better educate consumers and merchants.

Considering that Peisner has dedicated years to helping merchants and consumers fight fraud, you might assume his proudest moments would relate to consumer advocacy. But, Peisner's proudest achievement is truly a matter of life and death.

Eleven years ago, while donating blood platelets, Peisner found out his blood contains a rare antibody that can aid in the regeneration of platelets in bone-marrow-transplant and leukemia patients.

Since then, he has been a regular donor and recently donated his 327th pint of platelets.

Finding a niche

It's not surprising that Peisner feels the biggest job our industry faces is reducing fraud. Not far behind is education. "SellitSAFE.com has opened my eyes to fraud on a worldwide scale like I have never seen before," he said.

Peisner said identity theft can strike anyone, and the only way to break the cycle is through education and government intervention. He noted that the protections offered to consumers do not apply to business owners.

"The only reason there is zero liability [for consumers] is because the merchant has all the liability," he said. This is one of the issues he is working on through his ETA committee memberships.

Peisner's father's advice still resonates with him today. His advice for agents is to find their niche and provide superlative service.

That's what Peisner has done. He found his niche, fraud prevention, and is providing merchants and consumers the best service possible. ☐



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ChronoPay B.V.

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Bridging borders, big time

In theory, a retail transaction is straightforward. The consumer selects items to purchase, the merchant tallies up the cost and the consumer pays the merchant. However, as with many things, theory and practice are two very different animals.

And, when transactions take place online, the rules change. Merchants have to ensure transaction legitimacy without the benefit of in-person identification. They also need to operate within all applicable laws and regulatory requirements, no matter where their customers are located.

Additionally, accepting payments can be expensive – in terms of money and time. If merchants are not careful, they may suffer extensive losses. Therefore, it is vital that they use competent, trustworthy processors.

Enter ChronoPay B.V., a European Internet payment service provider (IPSP) focused on helping merchants decrease the risks of online payment acceptance.

The company does more than provide online bankcard processing solutions. It also researches all existing and pending rules, regulations and laws so that merchants accepting payments online and across borders are within the law, up-to-date on regulations and in compliance with requirements.

Global reach, local service

Founded in 2003, ChronoPay began with two offices: the headquarters in Amsterdam, The Netherlands, and a software development hub in Moscow. Recently, it opened an office in Barcelona, Spain, and another in Riga, Latvia.

In its short existence, ChronoPay has secured an impressive client list. High profile customers include the WWF (formerly the World Wildlife Fund), one of the world's largest independent conservation organizations, and TemplateMonster, a leading supplier of Web site templates.

Ido Schiferli, Marketing Manager for ChronoPay Europe, noted the company's growth in the last three years is due to the quality of its 100 employees. "ChronoPay's achievements are a direct result of the hard work and dedication of the people on our team," he said. "The secret to consistently outstanding performance lies in the integrity and effectiveness of both our processes and our people."

ChronoPay's offices are overseas, but it processes transactions worldwide, including in the United States. This means U.S.-based businesses wishing to process transactions worldwide now have the means to do so. The company also belongs to the Electronic Transactions Association.

Company Profile

"For some business models this forms an excellent solution for U.S.-based merchants," Schiferli said. "When they open a company in Europe they can profit from our industry-lowest fees. A significant amount of our processed turnover originates from the U.S."

Relationships to relish

ChronoPay is a registered payment service provider for a number of acquirers in the European Union and Eastern Europe. This enables ChronoPay to provide merchants with access to a variety of acquirers. These relationships mean merchants can get the best deal possible, in terms of fees and quality of service.

"Most acquiring banks provide merchant accounts to businesses that specialize in industries the bank has come to understand and feel comfortable with," Schiferli said. "They often provide [fewer] restrictions, better fees and faster approvals for merchants in those industries."

"Because ChronoPay is associated with many acquirers and its network of banking relationships is continuously growing, we are often able to pass on these same favorable terms to the merchants we serve."

While ChronoPay's growth has been significant, the company is not ready to rest on its laurels. Schiferli said his company's mission is "to become a true gear of e-commerce worldwide by ensuring that all e-commerce financial transactions flow in a secure, stable and reliable environment."

"At ChronoPay, our daily focus revolves around our commitment to develop

and nurture a single system that can fulfill the processing requirements of any e-commerce business worldwide, providing our merchants with true peace of mind, while allowing them to concentrate their own efforts on their critical business functions."

Juicy ISO/MLS offerings

Merchants in the United States and worldwide can obtain ChronoPay's services through the ISO/merchant level salesperson (MLS) channel. Typically, the company offers MLSs a minimum buy rate. Then, each basis point on top of the buy rate is split evenly between the MLS and ChronoPay.

However, Schiferli stressed that his company's compensation structures are adjustable. Factors such as merchant types can influence compensation.

"MLSs will enjoy many benefits, because we are not only very flexible in offering payment solutions due to our extensive network of acquiring banks, but also in the commission structure as it is being offered to the MLS," he said.

ChronoPay offers ISOs and MLSs additional features, including a fully automated ISO administration utility. This enables ISOs to track new merchant applications and monitor the activity of existing merchants, automatically. Reports can be sorted by payment type, risk type, card type or even time zone.

ChronoPay provides advanced processing services while striving to make enrollment and use of the service easy for clients.

"ChronoPay's payment processing infrastructure is technically sophisticated," Schiferli said.

"However, we provide merchants with an easy, user-friendly enrollment procedure, enabling them to quickly set up our smart and reliable payment solution."

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ISOs can also use this application process to quickly apply to become a ChronoPay sales agent.

Another benefit to ISOs and MLSs who choose to work with ChronoPay is the ability to offer flexible options to merchants. Retailers can choose to get their own Internet merchant account and process all major credit and debit cards.

Or, they can opt for ChronoPay's IPSP solution. With this avenue, merchants can accept payments on their own Web sites within 24 hours of signing up. Merchants who choose the IPSP solution do not need to apply for a merchant account.

The deal is in the details

ChronoPay also provides detailed reporting to acquirers and ISOs. Schiferli described the benefit: "We are aware that many acquirers and processors initially developed their software for use in traditional card-present processing environments.

"As a result, these applications are often incapable of identifying and storing the data required for advanced risk management and merchant support. ChronoPay provides its acquirers with relevant transaction data and statistics."

ChronoPay provides complete information, including customer details, Internet-protocol address, and details on a per-URL and per-risk-group basis. Another unique ChronoPay feature is its ability to disable processing when an urgent need arises. If merchants or acquirers suspect fraud, for example, they can halt processing to help mitigate the risk.

Some ISOs and MLSs may be concerned that practical issues such as geographic distance and time zone differences may make working with ChronoPay difficult. However, the company provides strong support to its clients' customers: Representatives are available 24/7/365 via phone or e-mail.

Any merchant with a company registered in Europe can process transactions through ChronoPay, including transactions from high-risk merchants. The company can accept high-risk merchants because of its robust security measures.

Fearless fraud busting

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Company Profile

The company is also Payment Card Industry Data Security Standard-compliant and holds HackerSafe certification. This certification means ChronoPay's Web site and services are checked daily for risk and vulnerabilities.

"Security is of paramount concern to ChronoPay, and we take our responsibilities very seriously," Schiferli said. "ChronoPay delivers real value to its clients by keeping abreast of card-industry and bank-mandated requirements and in maintaining its network security to the highest standards required in the industry."

ChronoPay uses its expertise to fight fraud. It knows the acceptable risk levels associated with each merchant type. It also knows what types of revenues are standard for an industry. Therefore, if a certain business activity is out of normal range, ChronoPay alerts the merchant involved to the anomaly.

The company also maintains and continually updates a database that lists fraudulent agents, affiliates and merchants. This further protects ChronoPay, its merchants and acquirers.

ChronoPay also developed the ChronoMethod BS System to track fraudulent transactions as they go through processing. The unique feature of the system is that when

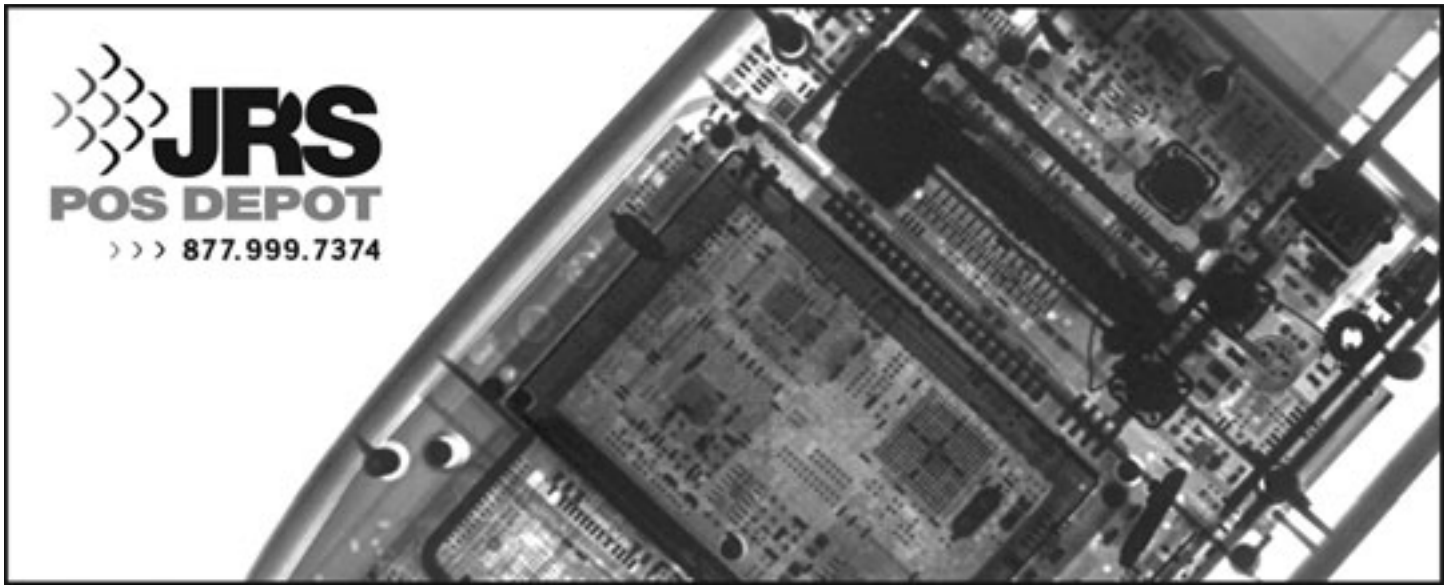
a suspicious transaction is detected, the system does not decline it. Instead, it mimics a successful authorization, giving the impression that the transaction has been approved and processed.

This technique accomplishes two goals: First, it provides additional information to increase the likelihood that fraudsters will be caught and prosecuted. Second, it allows ChronoPay to limit the amount of information a fraudster can infer about ChronoPay's fraud detection systems.

Once a security system or anti-fraud device debuts, hackers, thieves and pranksters immediately get to work on breaking into the system. ChronoMethod BS allows the company to prevent fraud without sharing any information about its fraud screening systems.

Fraud does not occur in a vacuum. Therefore, in addition to its proprietary systems, ChronoPay employs outside sources to fight fraud.

For merchants and the ISOs and MLSs who serve them, doing business over the Internet can be intimidating. ChronoPay specializes in making e-commerce secure and easy to implement. It also knows how to leverage the Web to help merchants and MLSs generate significant revenue. ☐



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In Memoriam: John Marshall, 'a friend to all'

John Marshall, a payments industry veteran known by many for his infectious demeanor and business acumen, died suddenly on January 28. He was 60 years old.

"John was a wonderful storyteller, and he had lots of stories to tell," recalled Kathy Crumley, a former associate. "John was a friend to all, and everyone enjoyed being around him."

John was born in Canada, but he came to this country by way of Australia. There he was Vice President of Sales and Marketing at Ausnet and its subsidiary, Eftel, which operated an independent network switch for ATM and card payments.

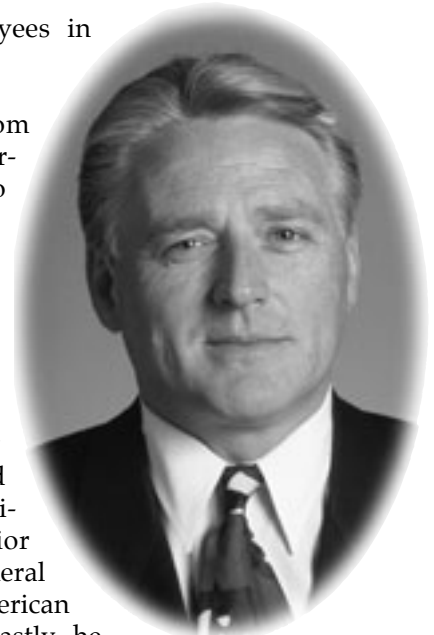
John was instrumental in helping establish Hypercom Corp. as a leading provider of POS terminals and peripherals in the Western Hemisphere.

He came to the United States in 1987 as one of that

company's first employees in the Americas.

In 1990, Hypercom relocated its headquarters from Australia to Phoenix. In those first few years, John was the public face of the company here in the United States, especially at industry events.

During his tenure at Hypercom, he held several executive positions, including Senior Vice President and General Manager for North American POS Operations. And lastly, he served in an executive advisory position to the company's president and chief executive officer.



After leaving Hypercom in 2001, he became President of Blackstone's Prepaid Systems group. In 2002, he joined Vital Processing Services as Executive Vice President for Sales and Client Relations.

In 2004, John became the Executive Vice President of Business Development for Lexcel Solutions, a provider of payment system testing solutions.

He had worked in an advisory capacity with Lexcel since the mid 1980s. He left the company in January 2006 but continued as an integral member of the advisory board.

At the time of his death, John was an independent distributor working with iStream Imaging Inc., a firm specializing in remote check deposit solutions.

"John was quick to spot a business opportunity – often using a bar napkin to draw it out – and would effortlessly connect the dots, making sure there was benefit in the deal for everyone involved," Crumley said.

John is survived by his four children – Laura, Jay, Melinda and Chase – and Nightrider, his loyal equine companion. His family requests that sympathies be expressed in the form of contributions to Horse Rescue of North Scottsdale (www.rescueahorse.com). ☐

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Proposals from Washington looming

Legislative changes afoot pose challenges to both merchants and their acquiring banks. Two issues cast ominous shadows over the industry: The prospect of reporting merchants' gross bankcard sales, and data security bills promising to hold merchants accountable for disclosing data breaches.

Cracking down on retailers that fail to fully report their revenue, the White House has proposed in its 2008 budget to make merchant acquiring banks report it for them. The banks would be required to inform the Internal Revenue Service of the total bankcard reimbursements made throughout the year for each merchant.

"We did not think that was an accurate way to report the gross reimbursement payments," said Barrie VanBrackle, Partner in the business and transactions department of Manatt, Phelps & Phillips LLP and member of the Electronic Transactions Association's (ETA) Government Relations Committee.

When the budget proposal was made public, that committee met to discuss the ETA's stance and strategy. She said the association's approach will be to educate members of Congress on both the impact of the legislation and better ways to obtain the revenue results President Bush is seeking.

"How do we talk to Congress about this?" VanBrackle said. "We don't know what payment system would be the best to provide [gross sales] information." Because bankcard reimbursements are only a portion of a merchant's sales, reporting them may be inadequate to gauge retailers' true sales, she added.

If passed and signed into law, the proposal would raise costs for acquiring banks. "If it costs the banks, they will pass it down to the ISOs, and the ISOs will pass it down to the merchants," VanBrackle said.

Acquiring banks were not surprised by the Bush administration's proposal, which had been rumored for several years, said Nick Baxter, Senior Vice President at First National Merchant Solutions. Yet seeing it in print raised more questions than it answered.

"It's not a question of whether we're for or against it," Baxter said. "We want to understand what it is."

Law of unintended consequences

Acquiring banks need answers to "20 or 30 questions"

before they can assess the proposal's impact, and numerous issues must be clarified, Baxter said.

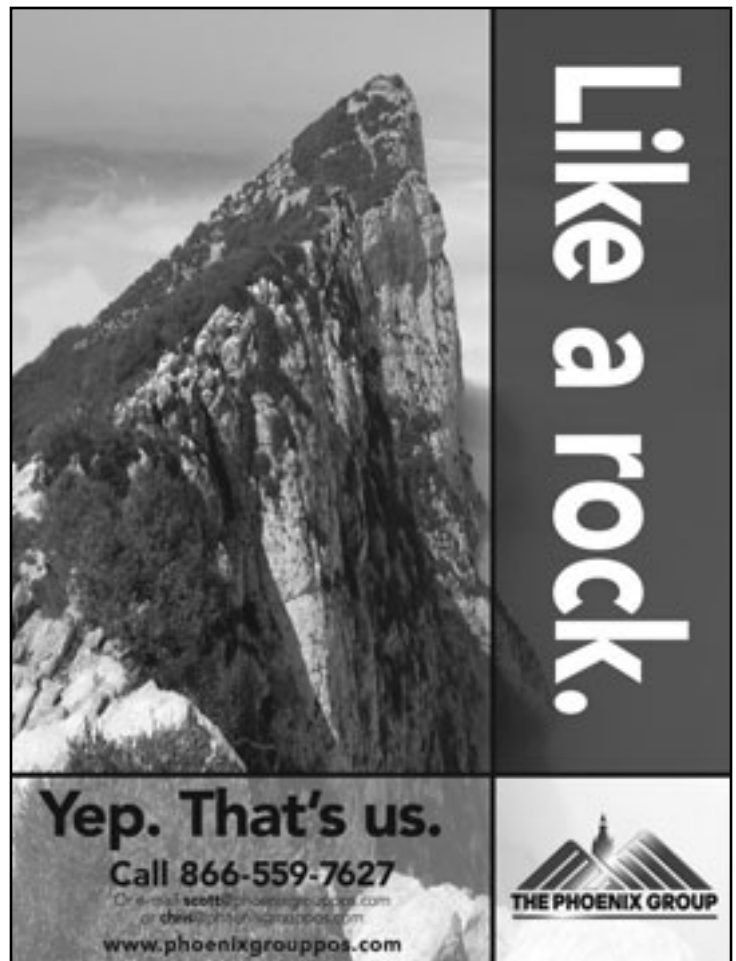
These include the lack of national identification numbers for merchant businesses, variations in fiscal years from company to company, how to account for chargebacks and cash back at the POS, and the particular sales metric that is to be reported.

Add to the list another issue: How much accountability would be placed on banks for the accuracy of the reported data?

Many variables can make the difference between a workable law, versus one that requires banks "to rewrite half the code in your system," Baxter said.

Numerous pending state bills dealing with interchange contain factual inaccuracies regarding the system. As with these bills, banks want to ensure that lawmakers and the IRS truly understand the mechanics of the bankcard system.

"One law we do have is the law of unintended consequences," he added.



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▶ If passed by Congress, the proposal would go into effect Jan. 1, 2008, and yield a paltry \$113 million in extra tax revenue its first year.

When costs exceed benefits

"Some merchants fail to report accurately their gross income, including income derived from payment card transactions," the budget proposal states.

But the wording gives the IRS wiggle room to determine when reporting would not be useful. The IRS would have the authority to make exceptions when costs exceed the benefits.

If passed by Congress, the proposal would go into effect Jan. 1, 2008, and yield a paltry \$113 million in extra tax revenue its first year. The estimated tax payments would grow sharply in subsequent years, adding nearly \$1 billion to the Treasury in 2011.

With a busy lobbying program already on its plate, the National Retail Federation has not yet taken a position on the proposal, according to J. Craig Shearman, NRF Vice President for Government Affairs Public Relations.

"Our front-burner tax issue right now is working on the minimum wage bill and getting small-business tax relief to compensate for the added payroll costs," he said.

Finding disclosure

Rep. Barney Frank, Chairman of the House Financial Services Committee, plans to introduce legislation that would require disclosure of data breaches involving citizens' private information, including credit card data.

"We don't know exactly when or what form the legislation will take," said Committee spokesman Steven Adamske. "It's on our committee's agenda" and may not be introduced for months.

While specific provisions are not yet defined, Frank has outlined some basic principles, "such as providing incentives to encrypt data ..., allowing people to freeze their credit and not pre-empting state consumer protection laws," Adamske said.

Requiring companies to disclose where breaches originated would create the incentive to encrypt data retained by merchants and others, he added.

The most onerous provision Congress could impose on the industry would be a disclosure requirement, because notification would be difficult without a national registry of e-mail addresses, VanBrackle pointed out.

Retailers or other companies may have no known way to

contact cardholders. "I can't imagine [using] regular mail," she said. And with e-mail, legitimate notifications would be suspect due to the onslaught of phishing e-mails making the same claims.

"I get these e-mails once a day," she said. If a cardholder does not respond to a notification, how can companies prove that disclosure has been made?

The Data Accountability and Trust Act, introduced in the House Feb. 7 but unendorsed by Frank, creates the exemption from disclosure he had discussed for data stored in an encrypted form.

This act specifies direct written and/or e-mail notification, if possible. Substitute notification methods include a notice on a Web site belonging to the company or in print and broadcast media.

The Personal Data Privacy and Security Act, reintroduced in the Senate this month, would

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The mobile card: Mixing money with talk

As payment devices, mobile phones have it all over bankcards: Whereas a card is merely a receptacle for the consumer's data, a phone can initiate a payment.

That's the view of Bob Egan, Research Director for Emerging Technologies at TowerGroup, a MasterCard Worldwide-owned research and consulting firm. Mobile payments "will do for debit and credit card transactions what the iPod did for music," he predicted.

But turning a phone into a payment device poses big hurdles. Bankcards come already provisioned, or loaded with consumers' account data. This won't be the case with handsets.

"It's unlikely your bank will send you a mobile phone," Simon Pugh, President of the Mobile Payment Forum (MPF), said in a recent webinar on the topic. "Mobile devices have remote connectivity, which cards don't have, and users will want payments [capability] added to their existing device." Pugh is MasterCard's Vice President, Standards and Infrastructure.

The MPF is developing a framework for mobile-phone based payments (m-payments). "We strongly felt we need a secure over-the-air [OTA] provisioning process," Pugh said.

This must support the full life cycle of any payment application, including installation and personalization; updates such as account expiry; deletion of the application from the phone; and moving the payment application to a new mobile phone.

Full steam ahead

Not waiting for such issues to be settled, the card brands are moving ahead now. Visa U.S.A., MasterCard and Discover Financial Services LLC have teamed with banks and device makers to launch trials.

But mobile payments won't be ready for widespread commercialization until late 2008, Egan predicted.

Visa is encouraging banks and telecoms to start trials by debuting a mobile payment platform created just for launching pilots. The platform is a

set of mobile services and enabling technologies that allows issuers and telecom operators to put handsets to use, said Pam Zuercher, Visa's Vice President of Product Innovation.

Consumers want a single device "that can get them through their day," she noted. Clearly, the choice is the mobile phone, which users prefer for accessing e-mail, text messaging, listening to music, surfing the Internet and making payments.

"When we think about mobile, we think about the promise it holds for proximity payments," or contactless, Zuercher said. But a cell phone enabled with near field communication (NFC) technology will have the capability for complementary uses, like card account management, coupon delivery, authentication and ticketing.

The Visa platform delivers the building blocks and mobile services that will allow all the players in the value chain to quickly test their model, she added.

Recently, Visa partnered with JPMorgan Chase & Co., Cingular (AT&T), Philips and ViVOtech for a trial at Philips Arena in Atlanta.

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▶ ***In late January, HSBC Credit Card Services, MasterCard and ViVOtech announced a six-month pilot. Equipped with Nokia NFC-enabled phones, HSBC employees are making PayPass contactless credit card purchases.***

Coming to a phone near you

Approximately 40 million NFC-enabled mobile phones are expected to be shipped in 2007, according to Dennis Moroney, Analyst with TowerGroup.

"People are looking for convergence," he added. But convergence of payment cards with cellular technology creates its own difficulties.

"The big problem is figuring out who owns the customer, who owns the relationship." Banks and card Associations recognize they could lose power to the carriers and have been uncomfortable with that, he said.

So far, the announced pilots pair a card brand with a bank and/or a handset manufacturer. Telecom carriers generally have not participated as sponsors.

In late January, HSBC Credit Card Services, MasterCard and ViVOtech announced a six-month pilot. Equipped with Nokia NFC-enabled phones, HSBC employees are making PayPass contactless credit card purchases.

"Two things are very unique in that trial," said ViVOtech President and founder Mohammad Khan. It is the first NFC pilot conducted in several cities, and the participants themselves provision the phones using an OTA automated system.

ViVOtech provided the enabling infrastructure. Users requesting to download their card information automatically connect to the HSBC server.

A critical objective of this trial is to test user interactions with the automated provisioning process. For any NFC application to obtain critical mass, "you have to make things simple and straightforward," Khan said.

Protecting turf

Both telecoms and issuing banks want to protect their turfs, Khan said. The architecture of the ViVOnfc Suite 2.0 platform for NFC-enabled phones puts a server at the card issuer premises and a control server at the carrier's premises.

The latter allows the carrier to download merchant promotions to its customers' phones.

When the user begins a credit card transaction, the control

server passes that request to the issuer's server, which takes over the communications, he said.

The issuer's server and the phone's wallet establish an encryption key before sharing information. "Carriers would not be able to see the credit card data at all," he added.

ViVOnfc allows carriers to control advertising and special offers passed by NFC to their phones, giving the telecoms a revenue stream.

"We could move to commercial rollout [of multiparty mobile applications] by the end of this year," Khan said.

One of the most recent pilots was launched by Discover and Motorola Inc.

The payment and account-management trial lets its 1,000 participants make purchases and check their Discover Card balances using their handsets, for which a mobile network operator was contracted for cell service, according to Kathy Wiesner, a Motorola spokeswoman.

Motorola supplied the phones and M-Wallet software. The pilot tests the NFC technology and the system infrastructure associated with accessing account information over the air.

Beyond trials

Once the model is proven, security and flexibility adjustments will be needed, Egan said. "We need to look at the nimble-footed ways thieves ... find to steal.

"When you start talking about putting these technologies on phones, we need to ratchet up the intelligence of unusual payment patterns."

Card brands and issuers can facilitate mobile debit transactions by applying \$50 liability caps and unusual-pattern recognition software for debit, as well as credit, transactions, Egan added.

And as people start to use their handsets for payments, Moroney said, they will push for an increase in the \$25 no-signature-required limit.

"The convenience around smaller transactions and the benefits of ticket lift are all motivators to encourage that," he added. ■



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ISOs speak out from page 1

"In today's environment a super ISO/processor also has to absorb the equipment costs if a free terminal program is offered, as well as all the bonuses typically offered to the MLS [merchant level salesperson] community. But from an MLS perspective, the cost to acquire a merchant, I believe, has gone down.

"Free terminals, increased signing bonuses, conversion bonuses, production bonuses – the list goes on – have no doubt increased the profitability of many MLSs and, in fact, lowered the acquisition cost per merchant."

Matt Freedman, Chief Operating Officer of Total Merchant Services, said his company's upfront costs have been rising steeply. "Our upfront costs two years ago, before free equipment, were probably \$100. Now it's about \$800.

"That's a pretty dramatic change in a short period of time. But I think it will level off at this rate. I don't see it going up very much higher."

Freedman broke down his \$800 per merchant estimate as follows:

- Terminal equipment: \$400 to \$500
- Upfront bonus: \$150 to \$200, on average
- Master agent/recruiter bonus: \$200 to \$300.
This bonus is restricted to fewer than 100 sales reps qualified under the Advanced Merchant Services LLC brand.

Freedman estimated that recouping the cost of acquisition can be done within the first 23 months after boarding. This assumes net revenue after payment of commissions is \$35 per merchant.

Many factors influencing costs

But Freedman's estimates don't include other fixed costs of doing business – things like overhead, payroll, marketing and technical support.

"It costs a small fortune to staff a sales support department that makes it possible for a MLS to board and activate an account," said Henry Helgeson, President of Merchant Warehouse. "We look at two things when we come up with our cost per acquisition.

"First is the variable costs that go into each deal. Those costs mainly include agent bonuses or sales rep commissions, marketing support, and any free equipment that goes out the door."

While those costs can add up, Helgeson said the increased costs associated with acquiring business have to do with the overhead that comes with boarding accounts.

"Large ISOs can spend millions of dollars a month supporting their agents and boarding accounts," he said.

"These costs have to be factored into the cost of boarding an account. Very often these costs exceed the bonuses and the free equipment costs that an agent sees."

Some ISOs say \$800 – or more – in upfront costs to board a new merchant is simply too high to sustain. For example, Caine said over-leveraging can be a house of cards if the growth rate doesn't continue to climb.

"Attrition causes natural barriers to net growth, so an over-leveraged ISO has to become more aggressive to maintain the required growth – either by lowering rates or increasing sales incentives, or both. I've seen this many times, and once it starts it generally leads to failure," he said.

According to Helgeson, ISOs seem willing to postpone their break-even point longer than ever. "It seems like only recently we had all measured our break-even point in months," he said. "Now it appears that some large ISOs are willing to wait years to recoup the variable costs they put out on a single account.

"Some ISOs are clearly setting up their exit strategies and spending more money than others in hopes of building a business that is meant to be sold rather than one that is built to be sustainable on a long-term basis."



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Valuations to weigh

Freedman said those who don't understand the logic behind an \$800 investment in a merchant account are failing to recognize the differences in valuations between small and large companies.

"Most ISOs fall into the 3,000 to 15,000 merchant category," Freedman said. "And that's a tough place to be.

"They may be acquiring 200 new merchants a month and losing 200 merchants through attrition, and they feel like they're treading water. If they want to sell, they're selling assets, basically, and they'd be valued at two to three times their annual revenues.

"But if they could build a much larger company and were to go public or be valued at a 50,000-plus merchant size, they'd probably be looking at a 10 to 15 times [annual revenue] valuation. That's a big difference."

Freedman compared his \$800 in upfront costs for merchant boarding to acquisition costs. "I can go out and buy a portfolio of 5,000 accounts, or I can buy my accounts one at a time for \$800 each. We do both. And I don't really see the difference.

"Paying \$800 in upfront fees puts the acquisition at about

24 times monthly revenues, which is right in the ballpark ... for an acquisition. And it's a cash flow positive for us from day one."

Freedman acknowledged that this sets a precedent many smaller ISOs can't meet.

"It really doesn't make sense to invest that kind of money if you don't have the cash flow or access to capital beyond asset lending," he said. "It gives us the opportunity to use our size to differentiate ourselves in ways that smaller companies just can't do.

"Of course it's a good idea if you have access to the money to do it. But if you don't have the desire or the means to build a large company, it would be pointless.

"I don't know how smaller ISOs can compete with these kinds of offers. We are in acquisition mode, so we keep an eye on ISOs who are interested in selling. And I'm seeing more and more in the 5,000 to 15,000 merchant level looking to sell."

Efficiency to the rescue

Steve Norell, President of U.S. Merchant Services, said his average cost to sign a new merchant is rising and now runs between \$300 and \$600, primarily due to closure

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fees, free equipment and payroll. That has pushed the average break-even point to nearly \$600. "Avoid attrition at all costs," he warned.

Attrition is the greatest challenge for Isaacman as well. "An investment to gain a merchant account is fine just as long as you can keep the merchant long enough to create a return on the investment," he said.

"That is why UBC is always looking for new ways to improve and enhance our service levels to increase merchant retention."

Helgeson said the only way to preserve profits is "to focus time and energy on making your operations group more efficient" to keep internal costs down.

"By improving internal systems, constantly retraining agent support reps and offering incentives to stay with the company longer, we can drive the cost of acquiring accounts and pass those savings on to the MLS in the form of sales incentives and better buy rates," he said.

Freedman said high upfront costs are not as risky as they sound. "The terminal costs, for example, are recoverable," he said. "Our equipment is locked down.

"A merchant can't simply change processors and keep the equipment. They agree to return our equipment to us within 10 days of closing their account, or they pay a cash equivalent.

"We also get \$150 of their \$300 termination fee, and the bonus is paid back if a merchant closes their account within six months of activation – within 12 months for a conversion bonus. So, all in all, we probably lose a couple hundred dollars per merchant attrition, but it's not the whole \$800."

Isaacman agreed that with careful management, equipment costs are mostly recoverable. "A free terminal on a low-volume account no doubt has the longest return on our investment," he said.

"However, we do operate a refurbishing operation. And we continue to recycle those terminals from small merchants that go out of business or cancel their service for one reason or another.

"With annual fees being billed within the first 60 days, we can ensure a high collection rate and actually reduce the ROI [time] significantly if that same terminal is deployed more than once in a year."

Isaacman noted that UBC has already recovered its free-terminal investment. "With over 30,000 free terminals deployed since November 2004, and approximately 7% of those units having been returned, refurbished and

deployed again, we are already working in the black on the program," he said.

Portfolios under scrutiny

The higher costs associated with signing a new merchant – and the potential losses – have made portfolio management trickier. Many ISOs are looking harder at the merchants themselves.

"Accounts sold over the telephone are more problematic because of ... margin compressions," Caine said. "The rep has less opportunity to build the rapport required to counter misleading and less than honest price quotes.

"Further, new businesses are bombarded with postcards offering free equipment, unrealistically low rates, cruises and trips, so we find it is generally not worthwhile to pursue these prospects.

"Since most have no track record and will generally be lower volume, it is virtually impossible to recoup the acquisition costs."

Norell said larger merchants are the most problematic because they want price concessions that further erode margins.


Freedman, too, avoids huge merchants. "We can make more with smaller merchants who don't demand as much in price concessions and who are happy just to get good, free equipment," he said.

Helgeson cautioned that some accounts produce a lower ROI, and ISOs have to be careful not to pay too much for them upfront.

"In particular, wireless and new Internet businesses seem to be the largest culprits that can cut into an ISO's ROI," he said. "If other ISOs try to compete with these business models where the break-even point is years out, we could find ourselves in a race to the bottom."

Helgeson added it's "even scarier" that some ISOs are leveraging their portfolios and their MLSs' portfolios to finance higher acquisition costs.

"Should they find themselves in financial trouble, the MLSs may unknowingly be right alongside them," he said. "Only time will tell how this will all shake out."

That said, perhaps a thought from long-ago humorist and writer Mark Twain would be in order: "It's not the size of the dog in the fight; it's the size of the fight in the dog." 





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Education

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ELECTRONICPAYMENTS

Direct sales: The pros and cons

By Michael Nardy

Electronic Payments Inc. (EPI)

Deciding which ISO or processor to partner with is something that many of you as ISOs and merchant level salespeople (MLSs) struggle with constantly. *The Green Sheet* magazine is filled with ads offering great transaction fees, free terminals, excellent pricing and innumerable other benefits to help grow your (and our) portfolios.

The benefits to ISOs and MLSs right now are myriad. And more than one ISO owner has said on more than one occasion, "It's a great time for the MLS."

But what if all these benefits weren't necessary?

What if the super ISOs and processors no longer were looking for ISOs and MLSs, like you, to partner with?

What if all the mainstream ISO programs were gone?

It could happen; it's already taking place.

The recent rumble over direct sales

Increasingly, the GS Online MLS Forum has been the battleground of an ongoing disagreement over the best approach to growing a large ISO: sales agents, direct sales or both?

Which master should you serve: your telemarketing room and direct salespeople or the feet-on-the-street ISOs and MLSs who have worked faithfully to grow your organization into a large entity?

It seems (and the responses to a recent MLS Forum post I made indicate such) that the ISO/MLS community strenuously objects to working with companies that have an inside sales force instead of those that are 100% ISO-driven.

When ISO and MLS payments were limited to lease commissions or minimal residuals, the margins in the acquiring business were healthy, and the commission structure of many large ISOs supported the ISO-only model for bringing in new bankcard business.

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Now, the environment is changing. Margins are decreasing not only due to competition, but also due to the large sums of money expended on free terminals and upfront bonuses.

For many ISOs, the bleeding these offerings cause either has to stop, or a new approach to the business must be enacted. The favored new approach (which is actually old) is direct sales.

An argument for direct sales

In this column I don't focus on how other companies do business. But in this case, I will have to extrapolate and use my best judgment in determining the benefits for those selling direct, because EPI does not use a direct marketing/direct sales approach.

The ISO/MLS community is a richly populated group. There are thousands of independent salespeople working in the merchant services industry. Keeping the loyalty of these ISO and MLS partners can be daunting, not to mention expensive.

In a world of nonexclusive agreements, ISOs and MLSs can jump from one company to another or even keep their options wide open by utilizing several processors, depending on the situation.

I spoke to one MLS who was deploying a free Nurit 8000 wireless terminal. I asked, "What about the processor? Do you care about the processor affording it?" His reply was a bit shocking, yet in a way, ordinary: "Not my problem. If they offer it, I'm taking advantage of it."

If this attitude in the MLS community is shared by not

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just one or two, but many, direct sales is a natural way for ISOs and processors to augment the business they aren't getting from their MLSs.

Setting up call centers or doing direct mail campaigns is a simple way to tap into several arenas, including geographic regions where an ISO has little or no MLS representation and business that isn't coming to an ISO from its own MLS channel.

Through direct sales, ISOs can also enjoy increased profits from accounts that require no residual or bonus payouts.

If the costs to acquire a new merchant can range up to \$800 (as recently quoted in the MLS Forum), why wouldn't it be acceptable for processors to employ a model that not only recruited ISO and MLS partners, but also eliminated the huge amount of overhead the MLS acquiring model generates?

Why not profit on deals coming in as direct business? Wouldn't the extra money generated be put back into the business to continue fueling the MLS channels?

The argument for this type of acquiring model is often rebutted by vocal MLSs who don't agree the extra dollars saved by employing a direct sales model come back

to them in the form of bonuses, better technologies and higher payouts.

A time will come when the ISO and MLS communities become so demanding that the lucrative deals being offered will simply dry up. Eliminating the huge expense of this sales channel by telling agents to instead work directly with a network or bank will be too appealing to acquiring ISOs. Unfortunately, the services lost in the process will dwarf any increase in residual income or revenue split.

There is a fine balance of what an ISO provides and what it takes in return. We are almost to that tipping point; some ISOs may have already crossed it.

The position of the ISO

ISOs don't just hold liability on a merchant portfolio or act as the buffer between MLSs and the acquiring bank. They are an essential part of the acquiring triumvirate of bank, network and ISO.

When I look at the industry and see larger and larger payouts for MLSs, I don't wish these to go away. But I also don't see too much in the way of acquiring ISOs making money.

A recent proposal that came across my desk was a classic situation experienced by many in my position: a new business that never sold merchant services before wanting the deal of a lifetime as it "ramps up" to 500 deals per month.


The individual who approached me has little knowledge of how the industry works. I don't disrespect this person, but I asked myself, "Does he know how hard 500 deals per month is to achieve?" Many in *The Nilson Report's* top 100 don't acquire 500 new merchants monthly. It's a daunting feat.

The ramp-up MLSs (as I call them) who e-mail me proposals are not any less valuable than those who have been in the industry for years. But their approach is indicative of the opinion I expressed earlier: It is a great time to be an MLS.

My company's position as an acquirer/ISO is not just, as I noted, to hold liability, but also to offer invaluable services such as training, file builds, deployment, conferences and new product testing – not to mention risk management, customer service and technical support.

If "going direct" were the answer to the MLS making more money, ISOs would quickly evaporate from the marketplace. It would be easy to just pay-per-click (i.e., pay for transactions) and still hold no liability or perform any functions of underwriting, customer service or tech support in-house.

In fact, when it comes to working with ISOs, an MLS's choices are so varied that whether an ISO markets direct



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to merchants is often not an issue of focus, but simply an afterthought.

The fact that MLSs can sign with 10 ISOs and decide where to submit their business is an argument both for and against a direct sales approach. ISOs that see value in MLSs and put aside their direct sales models will gain the trust and, ultimately, business of more ISO and MLS partners.

An argument against direct sales

To put it simply, the direct sales approach so many ISOs are taking does compete directly with the ISO and MLS partners they are trying to recruit. One recent conversation I had involved an agent who installed a new business phone line and immediately received several sales calls from the ISO the agent had just signed up to represent.

The most appropriate question for an MLS to ask a prospective ISO partner is, "Do you have any direct sales efforts in place?" The second question is, "Will these efforts impede my ability to sign merchants?"

When choosing an ISO to represent, look toward those that do not advertise or do direct marketing. The ISOs that post pricing on their Web sites and cold call from telemarketing rooms are doing a disservice to you and your profit margins.

Recently, an MLS Forum member posed the question: How does an ISO posting 1.59% plus \$0.25 pricing on its Web site help the ISO/MLS? The thought was that when you just sign up a merchant at 1.80% and then the merchant views different pricing online, does this potentially hurt the deal, and ultimately, your profit margin, equipment sale, lease commission or signing bonus?

It does. An ISO's Web site should not contain pricing, contact forms or online applications. These are potentially injurious to an MLS's ability to make a living.

This should be one of the more important items on your mind when choosing an ISO/processor. Sometimes price and revenue split are not as important as whether you'll have to compete with your own ISO for market share. ■

Michael Nardy is Chief Executive Officer of Electronic Payments Inc. (EPI), a founding sponsor of the National Association of Payment Professionals and one of The Green Sheet magazine's Industry Leaders. EPI is one of the nation's fastest growing privately held payment processing companies offering ISOs and MLSs profitable partnership programs and cutting-edge tools to help their portfolios grow. To learn more about partnering with EPI, visit epiprogram.com or e-mail Michael at mike@elecpayments.com.

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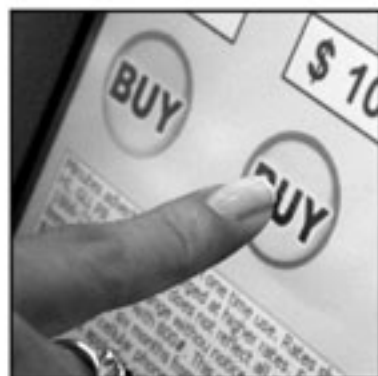
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Education (continued)

Petro prospecting

By Dee Karawadra

Impact PaySystem

The petroleum market is heating up. And if you're a merchant level salesperson (MLS) breaking into this sphere, you're on the way to adding big bucks to your residual stream.

According to the National Association of Convenience Stores, the increase in average U.S. gas prices from 2003 to 2004 – from \$1.55 to \$1.83 per gallon – led to a significant increase in the use of plastic at the pump.

Fifty-four percent of gasoline customers paid with plastic in 2004. And the continued increase in gas prices in 2005 and 2006 accelerated that trend. The petroleum market, which began as a cash-only business, has rapidly converted to electronic payments both at the pump and inside the store.

▶ **According to a Dove Consulting/American Bankers Association study, Americans made 52% of all their purchases with debit and credit cards in 2003.**

According to a Dove Consulting/American Bankers Association study, Americans made 52% of all their purchases with debit and credit cards in 2003. It was the first year more in-store payments were made electronically than with cash or checks.

This steady rise in electronic payments continues, giving merchant service providers great opportunities. The biggest challenge for MLSs is to obtain merchant accounts in the independent gas station market.

The players

Mastering the art of prospecting independent gas stations requires a networking kaleidoscope. It is essential to befriend jobbers, pump maintenance companies, grocery providers and oil marketers' associations.

In the petroleum industry, jobbers supply fuel to retail facilities. Pump maintenance companies provide service to gas pump hardware. Grocery providers offer food and convenience items to gas stations for inside sales. And oil marketers' associations consist of jobbers and gas station owners.

Here's some advice on how to approach these four important industry segments:

Jobbers

An independent gas station's most important relationship is with its jobber. But it's usually of the love-hate

kind. The jobber holds a precious resource – gas. The merchant needs gas to attract customers.

Jobbers typically refer or mandate the use of certain credit card processors to their petroleum stations. They also apply credit card deposit funds toward gas station fuel purchases.

Jobbers expect to receive residual or referral fees for business they refer. If a jobber is not already working with a processor, it will be extremely receptive to establishing a referral arrangement. This presents an opportunity for MLSs.

You will be rewarded handsomely if a jobber agrees to refer unbranded service stations to you for bankcard processing. And if you agree to refer independent stations to the jobber for gas.

Once you have established this relationship, it is crucial to honor your agreement. If you promise a referral fee, pay

it in full and on time. As your jobber's business grows, so will yours.

Pump maintenance contractors

Pump maintenance companies contract with service stations to maintain gas pumps. If a station makes a processing switch, the pump maintenance contractor does the reprogramming. Pump contractors also install pumps at new stations.

Many newly installed merchants ask their pump contractors for bankcard processing referrals. Thus, these contractors are a fertile referral source for MLSs.

Approach contractors in your area with referral proposals. Their main priority is an easy setup for station owners. If you can provide this, they will be more than willing to refer your services.

If they encounter a download issue, you will need to be available to remedy the situation as soon as possible.

The contractor will also appreciate installation, reprogramming and maintenance referrals when you sign new petroleum merchants. This reciprocity will help you build a strong foundation in the business. It is a win-win for both parties.

Grocery wholesalers

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merchandise. Often stations purchase groceries on credit. This arrangement can "encourage" station owners to act on referrals given by wholesalers.

It is customary for MLSs to pay grocery wholesalers a flat fee or small residual for processing business the wholesaler refers. Again, keep it reciprocal and refer your petroleum merchants to the wholesaler.

Building strong relationships that benefit all parties involved is the key to success.

Oil marketers' associations

Members of oil marketers' associations include jobbers and petroleum retailers. These organizations are set up at local, regional and national levels. They work to maximize their market share and negotiate contracts with vendors, based on group size.

Associations pose an excellent networking opportunity for MLSs. Price is paramount for this group when choosing referral partners.

But service is also important. Initially, associations may be reluctant to sign a contract. However, once you demonstrate your service levels and support, they will easily oblige.

These groups will expect residual or referral fees for sending business your way. They generally use the funds for marketing.

They will also allow you to present your products and services at their quarterly and annual meetings. Once your relationship is well-established, an association may even release its membership list to you.

Being an oil marketers' association's preferred provider will give you a perfect introduction to petroleum merchants. Again, relationships are key.

Build a strong, mutually beneficial arrangement that will take both you and your association partner to the next level.

Prospecting for petro takes time and effort; but once you begin, it will snowball. I hope this gives you a road map for your journey into this market. Do not hesitate to call or e-mail me if you have any questions. ☐

Dee Karawadra is the Founder, Chief Executive Officer and President of Impact PaySystem based in Memphis, Tenn. He and his team have a wealth of knowledge on the merchant services industry, with a niche in the petroleum market. Dee's experience on the street as an agent has guided him in laying a foundation for an agent program that is both straightforward and lucrative for his agents. Contact him at 877-251-0778 or dee@impactpaysystem.com.

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Education (continued)

Legal ease

And when I'm gone ...

By Adam Atlas

Attorney at Law

It's hard to face. But have you considered what will happen should you die or become incapacitated? Who will inherit your business? Who will mind the store? Very few ISO or agent agreements provide for this contingency. Estate planning may not be your cup of tea. But you should do it, eventually.

I am not a successions lawyer; I have no expertise in wills and estates. But as a legal practitioner in the merchant services industry, I suggest that you, as ISOs and merchant level salespeople (MLSs), contemplate the following when planning your business succession:

Have a will

If you have specific wishes about the disposition of your assets upon your demise, retain a local lawyer who is familiar with the laws of your state. Have your lawyer draft a last will and testament that clearly conveys your wishes. Be sure it makes provisions for rights in your

ISO or MLS business, as well as other assets you want to include.

Groom a successor

Since unforeseen, unfortunate future events could affect your ability to function, plan for how your company will survive without your active participation.

You should have someone in mind who could assume your role should you be unable to carry on in your present capacity. This can be a relative, but it doesn't have to be.

Consider tying your designated replacement to the business contractually, so your company will be protected by that contract whether or not you are on the job.

Review your agreement

Consult your ISO or agent agreement to see what it sets forth about succession. Agreements will usually have a clause that says, "This agreement will enure to the benefit of successors."

Most of the time, this means if you pass away tomorrow, the rights and privileges of your enterprise under the agreement will go forth to your successors.

An ISO or MLS agreement is not like other business agreements. The validity of this type of agreement depends on a number of underwriting criteria specific to the owner of the ISO in question.

For example, if you have great credit, but your heirs do not, that might deter a processor from doing business with your heirs when they succeed you.

Get heirs preapproved


Some processors will preapprove specific individuals as heirs under an existing ISO or agent agreement. This process requires that heirs provide certain information to acquaint the processor with them before the parties begin working together.

Processors are not all open to this arrangement because it can take additional time and effort. Depending on your personal situation, you may want to insist on such a provision.

Keep records

Most small companies exist, to a large extent, in the minds of their owners: As the owner of a small enterprise, you carry in your memory and in your relationships the heart and soul of your business.

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Education

If you want someone else to benefit from what you have built, endeavor to keep meticulous records of all aspects of your business. That way your designee can easily pick up the reins.

Incidentally, good record keeping is consistent with your obligations under a typical ISO agreement. Make sure you are in compliance with card Association rules.

Keep nonpublic, personal information (if you are allowed to retain it) under lock and key, accessible only to authorized individuals. No exceptions.

Write a how-to memo

It's a good idea to prepare a memo describing, in plain English, how to run your business. Knowing your contractual rights and bank balances is only a fraction of what running a business entails.

Merchant acquiring is complicated for people with extensive industry experience. For those thrust into it because of a succession, it is even more complex.

Build a cash reserve


Whether or not your heirs take over your business, they will need some time to fill your shoes if you

leave suddenly. During that period, bills will continue to accumulate.

Ideally, your company should have three to six months of operating cash to facilitate the transition to new management. Today, many people live on lines of credit; saving cash can be difficult. Nonetheless, it is integral to successful estate planning.

Limit debt

Many individuals have debt that far exceeds their assets. To have a well-planned estate, however, your assets should be greater than your debt. This includes your business's asset-to-debt ratio.

Your local attorney, financial planner and insurance broker are well-positioned to provide informed estate planning advice. Work with them. Then, after your plan is in place, get back to enjoying life and building your business. 

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Education (continued)

Elementary EBT

By Ross Federgreen

CSRSI

What's one compelling thing the grocery and professional-office vertical markets have in common? They wrangle with electronic benefits transfer (EBT). If you, as ISOs and merchant level salespeople (MLSs), become familiar with basic EBT concepts, you will more easily gain the confidence of decision makers in both of these arenas.

Fortunately, key issues related to EBT acceptance are similar to those pertaining to traditional credit and debit card acceptance: cost, integration, liability and security.

EBT versus ESD

EBT was introduced 30 years ago by the Food Stamp Act of 1977. It was enacted to facilitate the transfer of allocated federal and state funds to eligible beneficiaries. Examples of funds delivered via EBT include food stamps, which help low-income people purchase groceries; support payments for dependent children; and energy assistance programs.

A number of governmental programs do not transfer monetary value to beneficiaries. Instead, they enable other types of government/beneficiary interaction. They are known as electronic service delivery (ESD) programs.

Examples include those that help determine eligibility for Medicaid (a government-funded health insurance program for people with low income and few resources) and day-care assistance.

A growing number of federal and state programs use EBT and ESD; the number of beneficiaries affected is significant.

All 50 states now use EBT for food stamp benefits distribution, making food stamp delivery the largest EBT program in the United States. The requirements for this program are in the Code of Federal Regulations, Title 7, Parts 274.12 and 277.18.

EBT implementation

By law, the food stamp EBT program contains no intrinsic costs for participating merchants to absorb. However, merchants accepting EBT do incur costs.

First, many merchants need to use third-party processors to participate. These vendors charge merchants a direct fee for every EBT food stamp transaction. The fee approximates a typical debit transaction fee.

Also, merchants of all sizes and types face indirect issues

and hidden costs related to EBT acceptance. You can distinguish yourself by helping them mitigate these.

Often, merchants who accept EBT also accept credit and debit card payments. Space at the POS is at a premium. Offering a terminal or solution set that accepts both EBT and traditional electronic payments is essential.

For example, a medical office accepting credit and debit card payments may want to add EBT acceptance. The business will benefit if it can add EBT capability to the terminal it is already using.

In addition, retailers have significant issues concerning the reconciliation of electronic payments. Requirements for EBT reconciliation only increase these difficulties. If you can offer common solutions for both traditional electronic-payment and EBT reconciliation, merchants will find this helpful.

Single report generation is optimal. It delineates an EBT's fees, payments, reporting period, and originating agency or entity.

What if a company accepts EBT from multiple jurisdictions because the business operates in multiple states, or its customers are drawn from multiple states? This is a significant opportunity for you to demonstrate knowledge: Certain systems and programs enable retailers to have a single point of acceptance for multijurisdictional EBT. Research the options and present them to your clients.

Other hidden costs of EBT acceptance include system implementation and maintenance in addition to employee training and supervision. Whenever you can provide informed, professional assistance in identifying and resolving these issues, merchants will appreciate it.

Quest Mark questions

The Quest Mark program is sponsored by NACHA – The Electronic Payments Association. Merchants considering EBT acceptance will want to know what the Quest Mark is and what value it provides.

The Quest Mark logo is used nationwide to indicate retail locations that accept EBT. When displayed, it alerts customers that they may utilize EBT payment at a given location, saving time for merchants and shoppers alike.

When purchases are stalled or denied at the POS, three groups are immediately affected:

1. Customers attempting to make purchases at the POS become frustrated because they cannot complete their transactions.
2. Other customers waiting for their turn at the POS may decide to skip their purchases because of the delay.

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Education

- 3. Merchants lose revenue from lost sales. Also, they often have to spend management time and money sorting through the problematic transaction's issues.

It is very important, therefore, for you to encourage merchants to fully participate in the Quest Mark program. It is free. And if you discover a competitor is charging a merchant for Quest Mark participation, you can point this out and perhaps gain the merchant's business.

EBT purchase power

Retailers will ask you what purchases are allowed under various EBT programs. This is a complex question. Answering it adequately requires a full understanding of the specific program and jurisdiction involved with each such request.

No matter what program is employed, merchants are *not* permitted to charge EBT beneficiaries for EBT-related services.

Three basic types of purchases are eligible for EBT:

- 1. **Cash purchase for the transaction amount:** This permits clients to use their EBT cards to purchase goods or services only.
- 2. **Cash back with purchase:** In addition to purchasing

goods and services, this allows customers to receive cash, which is withdrawn from their EBT accounts. It requires no additional transaction on the part of retailers, who may cap the amount of cash to be given back. However, the limit must be the same for clients paying by other means.

- 3. **Cash back without a purchase:** In this case, beneficiaries present their EBT cards to obtain cash. No purchase is required. The amount of accessible cash is determined by the availability of funds, which is driven by the program involved and the funds remaining in the beneficiary's account.

There are many reasons to become familiar with the basics of EBT and ESD. This article highlights some of them. Now, go ahead and read additional material on these important topics.

As always, knowledge is power. This can translate into income for you. 📄

Ross Federgreen is founder of CSRSI, The Payment Advisors, a leading electronic payment consultancy specifically focused on the merchant. He can be reached at 866-462-7774, ext. 23, or rfedergreen@csrsi.com.



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Education (continued)

MILLIONAIRE IN YOU

Word of mouth mojo

By Jason Felts

Advanced Merchant Services Inc.

In last month's column, I discussed the power of referrals and the skills necessary to build a successful referral-based business. Now, let's look at how to effectively implement those skills.

During the course of your business day, you will have many chances to deliver value and stimulate referrals. The key is to recognize opportunities when you:

- Teach a prospect or customer something worthwhile
- Get a prospective or current client thinking in new ways
- Do something for a merchant without compensation
- Solve or prevent a retailer's problem
- Help a merchant with POS installation face to face or by phone.

- Deliver your product or service to a customer
- Assist a prospect who is starting a new merchant business.

Carpe diem

The secret is to capitalize on opportunities through all phases of your business relationships. Use referral skills at every stage. Sometimes, little things blossom into big things.

Here are examples of what to do:

- **Be generous:** Charge for "extra" services *only* when necessary. Don't worry. You'll more than make up the money in future business and referrals.

- **Reach out:** Don't just be there for customers from 9 a.m. to 5 p.m. Write your cell phone number on your business cards. Your contacts will likely rarely use the number. But having it will reassure them.

- **Keep your word:** Doing what you're supposed to do when you are supposed to do it is the minimum required to provide good merchant service and generate referrals.

- **Apologize:** When something goes wrong – and it will – apologize. By apologizing, you're not admitting fault; you're expressing genuine concern for your merchant's inconvenience. This reduces tension because it demonstrates you are there to address issues that arise. Also, immediately after you apologize, fix the problem.

- **Set the bar:** Setting high service standards will result in unequalled customer satisfaction. Be sure to tell merchants about your standards.

- **Don't burn bridges:** If merchants stop doing business with you, don't ruin your relationships over it. And go out of your way to make former customers feel comfortable about returning to you.

- **Compromise:** If you give a customer a concession, such as a reduced price, smile – even if it's not a win for you. Give in completely and cheerfully. Don't make the merchant feel guilty. Guilt doesn't create merchant loyalty or bring about referrals.

- **Educate:** Teach your clients the best ways and times to interact with your business to maximize their satisfaction. Explain how your systems work and why they are best for them as well as you.

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- **Give thanks:** Above all, say thank you every time you get the chance.

Do tell

Another opportunity in securing referrals is informing new referral prospects of the benefits of the referral process. Let them know how pleased you are to have been recommended to them through a mutual contact.

Be sure to detail what you hope to accomplish. Share your vision with your prospects and merchants. Address them by name. Tell them that by giving them great advice, implementation, rates and service you hope to earn the right to receive their referrals.

★ The 10 commandments of referrals

To keep referrals flowing in, post these 10 commandments where you will see them every day.

1. Have referral tools with you at all times (and plenty of them): business cards, brochures and a pocket-sized business card file containing your preferred referral partners' cards.
2. Set a goal for the number of people you want to meet each week.
3. When attending a business event, act like a host, not a guest. Or, host an event yourself. Be outgoing, give presentations and introduce others.
4. When talking with potential referral candidates or prospects, ask probing questions. Don't be superficial. Go deep.
5. Go to events to give first and receive later. Provide referrals and useful ideas whenever possible.
6. When chatting with potential prospects, use stories, anecdotes and case studies to enliven the benefits you provide.
7. Exchange business cards. Don't just give out yours. And write notes on the backs of cards so you can recall conversations later and take appropriate actions.
8. Spend more time with new contacts and less time with friends and associates. If you meet someone who could become an incredible referral ally, invest time to form a good connection.
9. Put effort into remembering individuals' names. Linger a little longer on names when you are being introduced.
10. Follow up. Good follow-up is the lifeblood of referrals. You can obey the previous nine commandments religiously. But if you don't follow up effectively, you're wasting your time.

Tell them you're building a business based on providing so much value to your customers, they will naturally want to tell others about you.

Let your merchants know they are foremost in your mind. In turn, you will be foremost in their minds when asked about credit card processing.

If you notice an article about a client's business in the newspaper or on the Web, send it to the merchant with a positive comment.

This lets customers know you are thinking about them in ways beyond the dollars they bring to your coffers.

In addition, ask for regular referrals. If you serve merchant-service businesses (sign companies, stationery stores, etc.), ask them to fax you their merchant lists weekly.

Or, request to display a card or flier with a fax-back form in their stores. Let them know you will do the work and pay them for the results.

If your customers prefer to give you referrals case by case, ensure that they have multiple means of reaching you: cell phone, fax, e-mail and so forth.

No matter what form your referral system takes, you want existing and future customers to think of you as the "go-to" person for credit card processing. Keep your name in front of them.

Give back

As referrals come in, how do you reward your sources? You can best answer this question, but here are a few recommendations:

- Some people will give you referrals upfront for free setup. Waive application fees, setup fees, and first and last lease payments in exchange for referrals.
- Offer to pay for referrals that turn into sales. You could offer \$100 for each successful referral. Or you could offer \$100 for each new client who buys equipment, and \$25 for those who merely reprogram old equipment or take advantage of free placement offers.
- Offer perks such as six rolls of paper and a restaurant gift card for every referral that results in a new merchant account for you.
- Offer to send your customers a check for two lease payments for every referral that translates into new business. That way, at a 50% closing rate, customers sending one referral per month would have all of their equipment lease payments reimbursed.



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Education

Remember to make it worthwhile for your merchants. And not just by what you offer, but also by inspiring them to *want* to give you referrals. This is their *time* you're asking for.

Aim high

To take your referral program to the next level, consider these additional options:

- **Other sales professionals:** Befriend commercial real estate agents. They put new businesses in new offices for a living. How about copier salespeople?

Any salesperson who creates relationships can be a valuable asset. Offer spiffs. What salesperson doesn't love free money?

- **Micros and Aloha system reps:** For retail storefronts and restaurant leads, seek out companies that sell Micros or Aloha systems and other cash-register type systems in stores, restaurants, hotels, wholesale restaurant-supply companies, trade associations and local chambers of commerce.

- **Tradeshows:** For wireless merchant leads, call on trade-show operators, flea market organizers and so forth.

- **Service businesses:** Pursue service-oriented business associations, including electricians, plumbers, locksmiths and towing companies.

- **The Internet:** For Internet-based merchant leads, investigate Web hosting and design firms, Internet marketing and advertising businesses, domain name registration companies, and search engine submission services.

- **Vendor partners:** To secure a variety of vendor partners, consider diverse industries such as payroll; temporary staffing; equipment and furniture sales and leasing; phone system sales and installation; phone service resellers (long distance and local); security; computer hardware, software and troubleshooting; mail box rentals; commercial and auto insurance agents and adjusters; body shops; and car dealerships.

- **Financial institutions:** Approach banks and credit unions. Remember, small financial institutions need reliable partners to which they can refer their customers.

- **Associations:** These represent a huge opportunity. Get named the rep or provider of choice with reputable associations. Then prospect their members directly.


The key is developing dozens of allies who will refer you whenever they learn about, meet with or see someone opening a new business.

Remember, the main advantage of word-of-mouth referrals is that they're from people your prospects trust.

Your referrals are getting recommendations from people they know and respect, not from strangers.

They also know the referring party doesn't have ulterior motives and isn't trying to sell them anything.

Additionally, running a business with professionalism and a high level of service will ensure your referrability. No price is too high to protect your reputation, even if that price is an occasional monetary loss.

Never forget that your word and integrity are paramount to long-term success in this or any business. 

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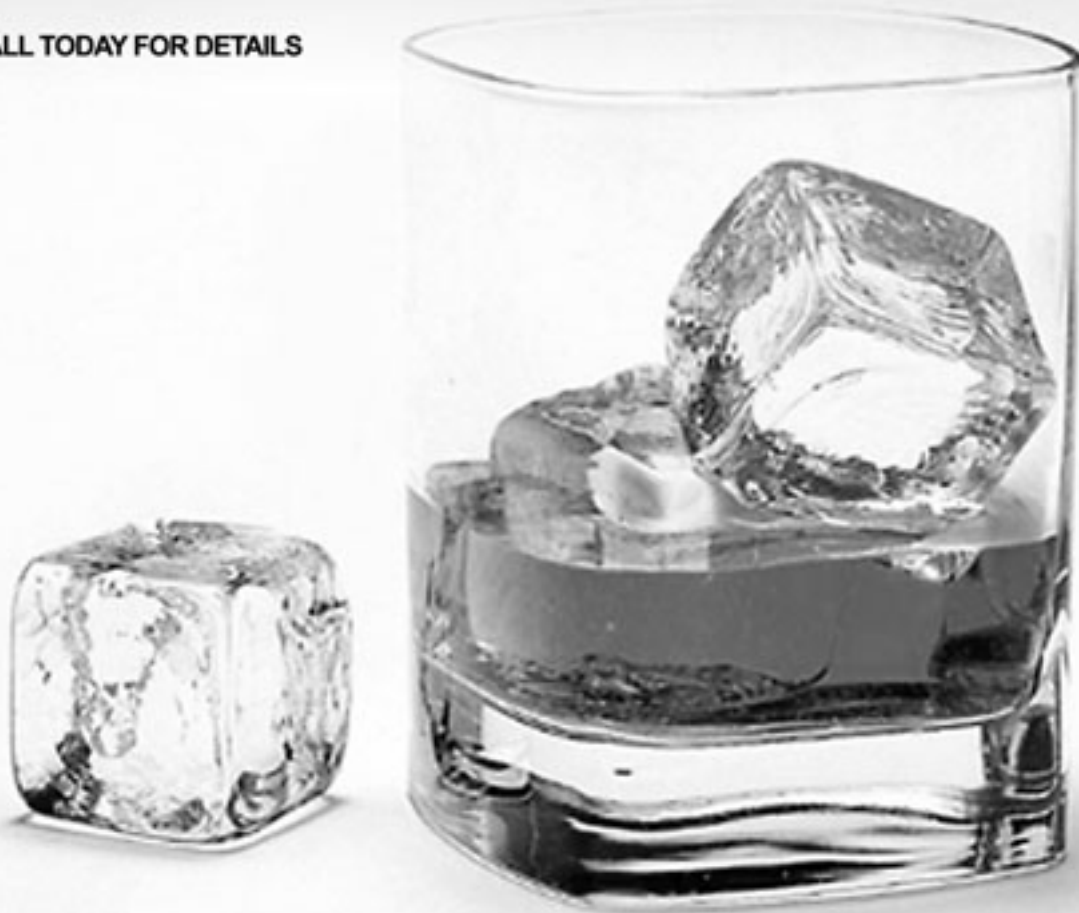
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Jason A. Felts is the founder, President and Chief Executive Officer of Florida-based Advanced Merchant Services Inc., a registered ISO/MSP with HSBC Bank. From its onset, AMS has placed top priority on supporting and servicing its sales partners. The company launched ISOPro Motion, its private-label training program, to provide state-of-the-art sales tools and actively promote the success and long-term development of its partners. For more information, visit www.amspartner.com, call 888-355-VISA (8472), ext. 211, or e-mail Felts at jasonf@gotoams.com.

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Education (continued)

Call center cornucopia

By Joel and Rachael Rydbeck

Nubrek Inc.

Most service companies spend significant time and resources managing new and prospective customers. A good phone system aids this endeavor considerably.

Fixed-cost and flexible phone solutions are essential for many small businesses, including ours. This article focuses on call centers for small to mid-sized companies.

Maybe you respond to a wealth of leads from your Web site, mass campaign mailings or lead generation tools. Or, maybe your customers have increasing support needs. A call center may be perfect for your business.

Call center defined

According to Wikipedia, a call center is a centralized office used for the purpose of receiving and transmitting a large volume of requests by telephone. This includes inbound calls (customers requesting support or information) and outbound calls (cold-calling and customer follow-ups).

A call center streamlines customer phone contacts to maximize operations, increase customer satisfaction and reduce costs. Reduced costs are realized through improved call management.

If you have five or more employees in constant contact with customers, a call center might be suitable for your business. As a manager, you will have access to detailed reports of call traffic patterns and agent productivity. These will highlight areas for improvement. Your business size and call volume will dictate the type of system that will work best.

Inbound calls

Calls are divided into inbound and outbound categories. In the call center context, inbound calls are usually from prospective or existing customers requiring information or assistance. The following tools are affordable and popular among smaller businesses:

- **Customer tracking:** This service allows agents to know who is calling before the agent picks up the phone. Some packages will also divulge where customers have been routed, with whom they have spoken and how long they have been on hold.

For calls coming from Web sites, the service reveals which product customers were researching.

- **Interactive voice response (IVR):** This technology allows clients to state the purpose of their calls to a prerecorded list of options. The calls are then routed appropriately.

- **Call queues:** This option holds calls in the order they are received, assembling them into queues.

▶ **A call center streamlines customer phone contacts to maximize operations, increase customer satisfaction and reduce costs.**

Outbound calls

Outbound calls are company-initiated. Many call centers use predictive dialing and click-to-dial techniques to balance the available agents and phone lines:

- **Predictive dialing:** Call center software predicts when an agent will be free to handle the next call and predials the next client on the list.

If you have ever picked up your phone and no one was on the other line, chances are you were predialed. In this scenario, if you stay on the line, an agent will be on shortly to offer you a product or service.

- **Click-to-dial:** This feature provides call center reps the ability to click a button on a display screen to call the next lead, prospect or customer. It removes the element of operator error and allows users to operate more efficiently.

You may have noticed that Google Maps now provides a click-to-dial feature. After a brief setup process, which includes entering your phone number, you're ready to go.

Locate a business you want to call (let's suppose it's a nearby hardware store). Click on the business's phone number, and your phone will ring. As soon as you put the receiver to your ear, you'll hear the hardware store's phone ringing.

Customer relationship management (CRM) solutions, such as our own NubrekCRM and eISO, are incorporating these types of functionality to improve efficiency and reduce operator error.

Outsource versus self-host

A key differentiator of call centers has been whether they are outsourced or self-hosted. With the latter, you provide your own resources, including phones, employees and space.

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Education

Outsourced call centers assist businesses seeking to provide their customers more comprehensive coverage. With outsourcing, you shop the market for the right provider.

Recently, a hybrid has been introduced. It outsources initial calls from customers and then routes them to in-house sales reps. If you provide a high level of support and need your call center open 24 hours a day, consider using an outsourced call center during off business hours.

Call center technology

Providing customized call routing, rollover numbers, automatic dialing, and so on, is somewhat involved. But it is not as complex as it used to be.

Historically, most call centers were hosted on equipment at a company's site using PBX systems. These provide management of 10 or more phone lines leased from a company's phone service provider.

Recently, Voice over Internet protocol (VoIP) has provided organizations with the ability to lease or outsource management of their phone systems. VoIP enables you to use your Internet line, or a dedicated high-speed network connection, as a call center.

Either way, a powerful server is usually used to route and manage phone calls. Key statistics are logged so that you can report on call duration, outbound calls, dropped calls and more.

As technology has advanced, features such as automated menu attendants have been created, allowing callers to dictate actions based on words and instructions. This is commonly referred to as IVR.

Call center add-ons

If you want to establish a call center, you may be interested in the following additional features:

- **Remote agents:** These are individual agents available to answer calls from their place of business or even at home. Some call center systems integrate remote agents with a basic integrated services digital network (ISDN) line, which is a circuit-switched telephone network. It enables remote agents to receive calls from a central location.
- **Virtual call centers:** This method connects several smaller call centers spread across a region. Individual centers employ the same technology and are able to communicate with one another.

How do I meet the needs of my not-so-conventional customers?

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- **Interaction centers:** These include the increasingly popular live chat options via Web sites and e-mail. Additionally, Web call-back enables a person to request a return phone call by entering a phone number on a Web site form. The company owning the Web site then receives the request, and a call-center agent calls the number given on the form.

- **Call recording:** This technology provides a company push-button recording for any of its calls at any time. This capability can help improve customer service.

Call center, contact center

A call center traditionally handles phone calls only, while a contact center focuses on every aspect of customer interaction – from the Web site to follow-up CRM solutions. Many companies use the terms interchangeably. Following are some areas in which a contact center tracks communication:

- Inbound and outbound telephone calls
- Web site-based online chats
- E-mail tracking
- Integration of CRM tools, which monitor company/customer interactions.

Major players in the call center space are Avaya Inc., Nortel Networks and Cisco Systems Inc. However, you don't necessarily need a huge (and often very expensive) solution.

There are lower-cost, hosted options. Several of our customers have successfully leveraged Asterisk, an open source PBX and telephony toolkit.

We don't recommend simply downloading Asterisk because you may need some additional hardware. But do take a close look at it and the vendors that provide related value-added services.

For example, Digium Inc. (www.digium.com) and Fonality (www.fonality.com) offer open source implementation and hosting services.

Whatever solutions you choose, we wish you the best as you learn how to respond and initiate customer calls in a manner that increases your business success. ☑

Joel Rydbeck, Chief Technology Officer of Nubrek Inc., brings his strong background in e-commerce and business process automation to the merchant services industry. Rachael Rydbeck, President of the company, has a background in product management and technical writing. Nubrek offers eISO, a Web application for ISOs that tracks leads and provides automated residual and commission reports. For more information on eISO or to view a free demo, visit www.nubrek.com/eiso.html. E-mail Joel at joel@nubrek.com or Rachael at rachael@nubrek.com.



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New Products

Plug and play terminal: Music to merchants' ears

Product: PayPad V3 payment terminal

Company: 3PEA International Inc.

Plug and play (PnP) sounds like something Jimi Hendrix would have worked magic with. This feature, which allows PCs to recognize and operate peripherals without installing special software drivers, has been around for years.

With the explosion of PCs and peripherals at the POS, PnP devices are becoming useful tools for the merchant level salesperson.

3PEA International Inc. just introduced one such PnP peripheral: The PayPad V3 payment terminal addresses the needs of the PC-based POS market.

It integrates form with function into one of the smallest footprints among payment terminals, according to the company. The unit measures 4.7 by 4.1 inches.

The PayPad V3 is compatible with any gateway or processor, said 3PEA spokesman Mark Newcomer.



PayPad V3 payment terminal

Designed as a hand-held POS device, the terminal incorporates a magnetic stripe reader (tracks 1 and 2), an encrypting PIN pad, a Europay/MasterCard/Visa (EMV)-L1-certified smart card reader and a liquid crystal display.

The unit was designed for seamless integration with Windows operating systems (2003, XP and Vista) and allows developers to turn any Windows application into a fully functioning payment terminal.

PnP functionality comes into play through the terminal's Universal Serial Bus 2.0 (high-speed USB) port, one of V3's most advanced features. The unit is said to be compliant with the Payment Card Industry (PCI) Data Security Standard.

It also supports the data encryption standards DES, 3DES, DUKPT (derived unique key per transaction) and 3DES DUKPT encryption. The unit is tamper-resistant to meet PCI compliance. The processor and memory chips are encased in epoxy.

Merchants won't get any "Star Spangled Banner"-style guitar licks out of a payment terminal, but plug-and-play can still be music to their ears.

3PEA International Inc.

800-460-0811

702-453-2221

www.paypad.com

PC-based server software brings new tools, support

Product: SmartPayments Server

Company: Hypercom Corp.

Hypercom's latest software for its SmartPayments Server is said to deliver fast payment processing of five seconds or less. The server may be offered for resale or as a service by merchant acquirers and ISOs.

The product can be used with any payment device to capture, encrypt and route transactions for authorization over the Internet, dial and wireless protocols. It supports retail card-present, MO/TO and Internet transactions.

Additional payment processing platforms have certified the new software version, including Electronic Clearing House Inc., First Data Omaha, Global Payments Inc., Heartland Payment Systems Inc., Chase Paymentech Solutions LLC and TSYS Acquiring Solutions.

Tip adjustment and configurable tip-input graphical interfaces provide fast and easy entry of gratuity

NewProducts



amounts to each transaction through the PC's browser, or through an application programming interface (API) for integrated solutions, before batching all the day's transactions.

Loyalty program processing maintains a cardholder database. It provides access to reports on frequencies of purchase, average spend and other data to allow merchants to conduct targeted marketing and offer optimal rewards for repeat shoppers, such as customer discounts.

The server provides storage and support for convenience fees. This enables businesses to print the fee on the customer's receipt and store the data according to Visa Cardholder Information Security Program mandates. The software features:

- A check image retrieval API for uploading to high-security check image repositories and instantaneous access
- Signature capture storage and retrieval for chargeback protection
- Support for Microsoft SQL Server 2005, to ensure maximum performance scalability and security.

As a platform built on .NET, the newest release of SmartPayments Server leverages Web services as a backbone for processing integrated payment transactions with business-critical processes and client-side input devices.

Hypercom Inc.

877-497-3726

602-504-5000

www.hypercom.com

Accepting payments online, without the shopping cart

Product: MyPayNet

Company: My Payment Network Inc.

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payments, with the funds automatically settled to their bank accounts.

ISOs, which sell the service, can customize the look and feel of Web pages to match their own brand, said David Dunaway, My Payment Network's Chief Executive Officer. The company recently streamlined the private-labeling process for partners.

The system enables associations to accept event registrations, membership fees and subscriptions online. Personnel fill out an invoicing form in their MyPayNet account and designate it for payment by one or more of their customers. Invoices are e-mailed to customers.


Both electronic check and credit card merchant accounts are included with the service. The software and service reside on My Payment Network's secure server. Partners and resellers can offer the MyPayNet electronic invoicing and payment service to businesses or schools. The service enables users to:

- Use a simple form for online payment-page creation, called an "item"
- Edit items at any time with instant updating to the payment page

- Automatically generate HTML code for posting items to their Web sites
- Keep a full archive of all transactions
- Allow customers to view their transaction archives
- Run reports by date, category, student and item name
- Export all reports to Excel spreadsheets.

The process for linking payment pages to a business's Web site is the same as that linking the payment page to the invoicing function. Personnel fill in a form to create a custom payment page and then link that item to their site.

My Payment Network negotiates a revenue share with ISOs on setup and transaction fees, Dunaway said.

ISOs can also resell the company's primary service: SchoolPay, an invoicing and payment system that enables K-12 schools to accept credit card and check payments. 

My Payment Network Inc.

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Inspiration

WaterCoolerWisdom:

An ounce of loyalty is worth a pound of cleverness.
- Elbert Hubbard



Here's an example: If you travel for business, you know the importance of having comfy accommodations while on the road.

And most of us are creatures of habit. We don't like to be surprised after a long day of work and travel. So, we tend to frequent familiar establishments that have already served us well.

If you are like most business travelers, your favorite hotels and restaurants are not the most expensive or the most glamorous.

They are not the least expensive either. They are most likely the places that offer something that the others don't. Or, they do a better job of providing a service their competitors also offer.

Becoming the brand of choice

We all have favorite brands. For some people, Coke is the *only* soft drink. For others, nothing beats Dr Pepper. Some folks wouldn't dream of putting anything but Philadelphia cream cheese on bagels; others prefer them topped with butter and Smucker's jam.

For brand-loyal customers, price doesn't matter. Certain products are their favorites, always have been, always will be.

Can you, as an ISO or merchant level salesperson, create brand loyalty within your merchant base? Can doing business with you become so desirable that using another agent or ISO never occurs to your customers, regardless of price or market conditions?

Sure – if you find ways to stand out from the crowd. There are two ways to differentiate yourself:

1. Provide a product or service that your competitors do not provide.
2. Do a better job of providing a product or service that others also provide.

Look in the mirror

Skeptical? Look at your own habits.



Drop us a note.

Give us feedback, share an idea or travel advice to expos and conventions ... et cetera.

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Inspiration

Perhaps you frequent a hotel because it offers free fax and copying services to its guests. These small tasks are inexpensive for the hotel to provide, but they can mean a lot to a traveler who doesn't have the time to locate and travel to a reliable copy shop.

A hotel could top your list because it offers something as basic as complimentary breakfast in the lobby. The eggs don't have to be made to order; the coffee doesn't have to be organic. The fact that the meal is free, hot and ready might be enough to cement a lasting business relationship.

These are simple actions a hotel can take to earn repeat business. They are not extravagant. Even small amenities can be enough to lure customers back.

If a service is needed and convenient, customers will try it. If they have a good experience, they are likely to use it again. Soon the service becomes a familiar standby. And its provider becomes the customers' preferred option.

Ask the experts

So, how do you become your merchants' brand of choice? There is no single answer. Each customer is unique. However, you *can* find answers: Consult your merchants. They are the best source of information about what is most helpful to them.

Analyze your sales data to identify your most popular product or service. Find out what makes it so compelling. Ask your clients:

- What they appreciate about your services, and why
- What they would like to see improved
- What their pet peeves are when it comes to merchant services
- What's on their POS, bankcard processing and overall business wish list.


Use this information to devise new ways to serve your merchants or create entirely new programs. Then, ask your customers for feedback.

Do this. Do this often. Do this well. And you'll never need worry about being second-fiddle or Brand X. You'll be your merchants' premier provider.

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Paul H. Green, President and CEO





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Southeast Acquirers' Association

6th Annual Conference

Highlights: From the opening reception to the farewell breakfast, the SEAA's conference will provide attendees an opportunity to meet old friends and network with industry leaders. Seminar topics will include contactless payments, e-commerce solutions, Web marketing strategies and opportunities in the petroleum market. A vendor fair will coincide with various breakout sessions and breaks.

Before the conference begins, Field Guide Enterprises will lead an afternoon of educational sessions for ISOs (see next Datebook item). Admission to the Field Guide seminar is included with paid registration to attend the SEAA conference.

When: March 19 – 21, 2007

Where: Hyatt Regency Jacksonville Riverfront, Jacksonville, Fla.

Registration: Visit www.southeastacquirers.com or e-mail information@southeastacquirers.com.



Field Guide Enterprises LLC

Field Guide for ISOs seminar

Highlights: Coinciding with the SEAA conference, the half-day Field Guide seminar "How to Grow Your ISO (and Sell It for Millions!)" is geared toward merchant level salespeople and small to medium-sized ISOs. The agenda includes presentations by six industry experts covering a broad range of key topics for the developing ISO. Presentations include:

- "Building Your ISO on a Solid Foundation," given by Greg Cohen, President of Moneris Solutions USA
- "ISO Finance Made Easy," presented by Harold Montgomery, CEO of ART Holdings, parent of Calpian
- "Tools for ISO Success," by David Putnam of Resource Finance Co.

Presenters will explain what makes an ISO grow in value. The cost of the Field Guide seminar is included in the SEAA registration fee.

When: March 19, 2007

Where: Hyatt Regency Jacksonville Riverfront, Jacksonville, Fla.

Registration: Visit www.southeastacquirers.com or e-mail mark@fieldguideforisos.com.



Western Payments Alliance

ACH Origination and Risk Management workshop

Highlights: This intermediate workshop offers an in-depth examination of automated clearing house (ACH) origination and risk management processes. The interactive program will provide a broad understanding of all facets of the ACH business, with a focus on corporate originator support. Topics include:

- Critical considerations for creating effective ACH origination policies, agreements and risk-management safeguards
- Analyzing ACH origination processing alternatives
- Establishing effective and secure procedures for day-to-day operations and customer service.

A basic level of ACH knowledge is required, and completion of WesPay's workshop "Fundamentals of ACH Receiving" is recommended. The course will appeal to a broad range, from smaller financial institutions not currently originating to larger ones with significant origination business. It will also be useful for representatives from affiliate members who may provide services connected with ACH origination.

When: April 4, 10, 11, 25 and 26

Where: Locations in Utah, Oregon and California vary

Registration: Visit www.wespay.org or call 415-433-1230.



NACHA – The Electronic Payments Association

Payments 2007

Highlights: Technological and legal developments are driving significant changes in the competitive environment, opening the door to innovative solutions and new relationships. A hot topic at the annual conference will be back-office conversion, which goes into effect March 16.

Retailers and banks will share case studies of their first 30 days using the check conversion application. CheckFree Chairman and Chief Executive Officer Pete Kight will give the keynote speech. Topics in the card-solutions track include:

- A view of contactless payments without rose-tinted glasses
- Prospects for general-purpose prepaid cards
- Merchants banding together to meet payment needs, such as a jointly owned and operated merchant network
- Credit fraud
- PIN-less debit, powerful results.

The Payments Biz track will look at recent developments in electronic payments law; exploiting the new economics of alternative payments; the results of four mobile payment pilots; consumer adoption of new technologies; and developing a customer-centric fraud strategy. Other tracks include ACH, e-check, global focus and corporate payment solutions.

The gala celebration April 16 at the House of Blues Chicago will feature four floors of live entertainment and eclectic cuisine. Rick Reilly, Senior Writer for *Sports Illustrated*, will speak at the April 17 luncheon.

When: April 15 – 18, 2007

Where: Hyatt Regency Chicago, Chicago

Registration: Visit www.nacha.org, call 703-561-1100 or e-mail info@nacha.org.



Electronic Transactions Association 2007 Annual Meeting & Expo

Highlights: The ETA's Annual Meeting & Expo is the largest gathering of electronic payment professionals. The event provides networking and educational opportunities for building new relationships and connecting with industry experts.

On April 17, a full-day Compliance Day seminar coincides with the ETA golf tournament. An opening reception with exhibitors takes place in the evening.

FOX News business commentator Stuart Varney will open the general session April 18. Prepaid products will be the subject of a technology super session that follows.

Concurrent educational breakout sessions will also begin.

On April 19, Bruce Schneier, author and security technologist, will lead the security super session. Author and comedian Ross Shafer will close the final general session.

Awards for Distinguished Payment Professional and Technology Innovation of the Year will be presented at the President's Dinner on April 16.

When: April 17 – 19, 2007

Where: Mandalay Bay Resort & Casino, Las Vegas

Registration: Visit www.electran.org
or call 866-382-6338, ext. 18.



Women Networking in Electronic Transactions (W.net)

W.net spring 2007 meeting

Highlights: If you're attending the ETA Annual Meeting & Expo, plan to arrive early for W.net's spring meeting the afternoon of April 17. W.net will kick off its mentoring program immediately following the event.

The meeting topic is "Staging Yourself for Success: Powerful Public Speaking." Once petrified of presenting in public, motivational speaker Martha Lanier will share her personal experiences to motivate attendees to think big, stretch their comfort zones and begin living a life of unlimited possibilities. She is the author of *303 Solutions for Developing the Leader in You*.

When: April 17, 2007

Where: Mandalay Bay Convention Center North, Las Vegas

Registration: Visit www.w-net.biz
or e-mail registration@w-net.biz.

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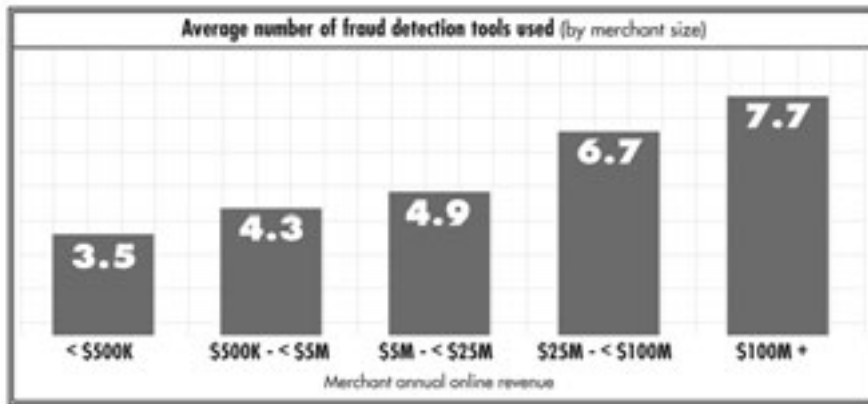
Merchants combating online fraud

The percent of revenue lost to online payment fraud is declining. But as e-commerce continues to grow 20% each year, total losses from fraud are increasing, according to CyberSource Corp.'s 8th Annual Online Fraud Report.

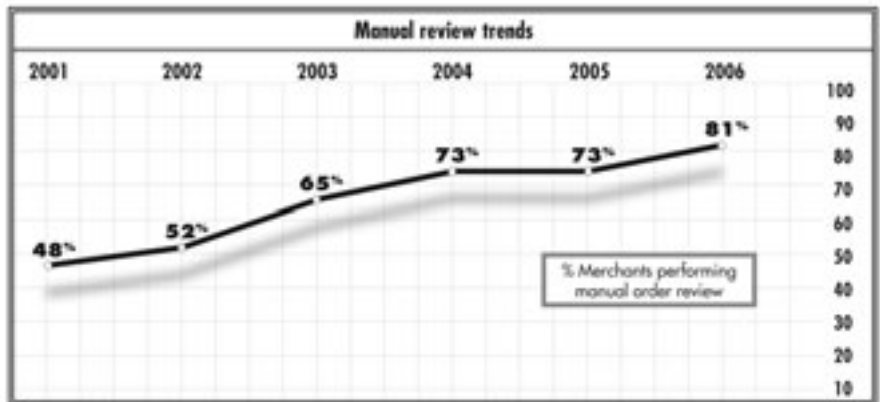
Revenue lost to online fraud was 1.4% in 2006, down from 1.6% in 2005 and 2.9% in 2002, according to CyberSource.

But total revenue loss due to online fraud was \$3 billion in 2006, compared with \$2.8 billion in 2005 and \$2.1 billion in 2002.

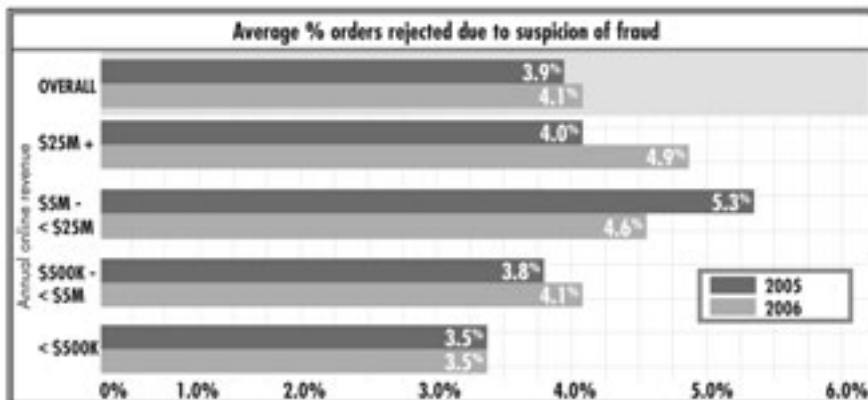
About 350 online merchants in North America participated in the study. They ranged from first-year online businesses to among the largest e-tailers in the world. Here are some highlights:



More merchants are using fraud-detection tools such as Address Verification Service (79%) and Card Verification Value (69%) to combat online payment fraud.



Eighty-one percent of merchants are also manually checking online orders more often. Of these orders, 44% required contacting the customer, the customer's bank (29%) and third-party data sources such as credit bureaus (18%).



But are these efforts helping or hurting their businesses overall? Merchants reported a slight increase in their order rejection rates from 2005 to 2006. For every fraudulent order they received, they rejected nearly four orders due to suspicion of fraud. ☒

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